

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 12, 2018

NEW ISSUE – BOOK ENTRY ONLY

RATINGS: (See “RATINGS” herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2018 Series A Bonds and the 2018 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”), except that no opinion is expressed as to the status of interest on any 2018 Series B Bond for any period that such 2018 Series B Bond is held by a “substantial user” of the facilities financed or refinanced by the 2018 Series B Bonds or by a “related person” within the meaning of Section 147(a) of the Code. In the further opinion of Bond Counsel, interest on the 2018 Series A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel observes, however, that interest on the 2018 Series B Bonds is a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under 48 U.S.C. Section 1423a, interest on the 2018 Series A Bonds and 2018 Series B Bonds is exempt from taxation by any State or Territory of the United States or any political subdivision thereof, or by the District of Columbia. Bond Counsel observes that interest on the 2018 Series C Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the opinion that, under 48 U.S.C. Section 1423a, interest on the 2018 Series C Bonds is exempt from taxation by any State of the United States or any political subdivision thereof, or by the District of Columbia. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2018 Bonds. See “TAX MATTERS.”



\$31,655,000*
PORT AUTHORITY OF GUAM
Port Revenue Bonds,
2018 Series A
(Governmental/Non-AMT)

\$23,065,000*
PORT AUTHORITY OF GUAM
Port Revenue Bonds,
2018 Series B
(Private Activity-AMT)

\$17,880,000*
PORT AUTHORITY OF GUAM
Port Revenue Bonds,
2018 Series C
(Federally Taxable)

Dated: Date of Delivery

Due: July 1, as shown on the inside front cover

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms not defined on this cover page are defined inside.

The Jose D. Leon Guerrero Commercial Port, also known as the Port Authority of Guam (the “**Authority**”), is issuing its Port Revenue Bonds, 2018 Series A (Governmental/Non-AMT) (the “**2018 Series A Bonds**”), its Port Revenue Bonds, 2018 Series B (Private Activity-AMT) (the “**2018 Series B Bonds**”), and its Port Revenue Bonds, 2018 Series C (Federally Taxable) (the “**2018 Series C Bonds**” and, together with the 2018 Series A Bonds and the 2018 Series B Bonds, the “**2018 Bonds**”), to (i) fund capital improvements to the Jose D. Leon Guerrero Commercial Port (the “**Port**”); (ii) retire certain of the Authority’s outstanding debt; (iii) provide for capitalized interest on the 2018 Bonds for up to two years (iv) fund a deposit to the Bond Reserve Fund (as defined herein); and (v) pay costs of issuing the 2018 Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 2018 Bonds will mature on the dates and in the amounts and will bear interest at the rates per annum listed on the inside front cover. Interest on the 2018 Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2019.

The 2018 Bonds are subject to mandatory, optional and extraordinary optional redemption prior to maturity (as more particularly described herein).

The 2018 Bonds are authorized to be issued pursuant to Article 2 of Chapter 10 of Title 12 of the Guam Code Annotated, as amended, and pursuant to a master indenture, dated as of July 1, 2018 (the “**Master Indenture**”), as supplemented, including as supplemented by a first supplemental indenture to be dated as of July 1, 2018 (the “**First Supplemental Indenture**” and, together with the Master Indenture, the “**Indenture**”), each by and among the Authority, Bank of Guam, as trustee and as depositary, and U.S. Bank National Association, as co-trustee and paying agent. The issuance, terms and conditions of the 2018 Bonds have been approved by the Legislature of Guam, the Guam Public Utilities Commission and the Board of Directors of the Authority. The issuance, sale and delivery of the 2018 Bonds have been approved by the Board of Directors of the Guam Economic Development Authority.

The Bonds (as herein defined, including but not limited to the 2018 Bonds) are limited obligations of the Authority payable solely from and secured by a pledge of Revenues (as defined in the Indenture and more particularly described herein) consisting primarily of certain income and revenue received by the Authority from the operation of the Port (as defined in the Indenture and more particularly described herein), subject to the provisions of the Indenture permitting the application of Revenues for the purposes (including payment of Operation and Maintenance Expenses (as defined in the Indenture)), and exclusive of certain surcharges, described herein.

The Bonds are not a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues pledged to the payment thereof as provided in the Indenture. Neither the Government of Guam (the “**Government**”) nor any political subdivision thereof is obligated to pay the principal of, redemption price, if applicable, or the interest on the Bonds, except from such Revenues, and neither the Authority nor the Government or any political subdivision thereof has pledged its faith or credit to the payment of the principal of, redemption price, if applicable, or the interest on the 2018 Bonds.

The 2018 Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”). DTC will act as securities depository of the 2018 Bonds. Individual purchases of the 2018 Bonds will be made in book-entry form only. The 2018 Bonds will be issued only in denominations of \$5,000 or any integral multiple thereof. Payments of principal of, redemption price, if applicable, and interest on the 2018 Bonds are to be made to purchasers by DTC through DTC participants. See “APPENDIX G—BOOK-ENTRY SYSTEM.” Purchasers will not receive physical delivery of 2018 Bonds.

Investment in the 2018 Bonds involves risks which may not be appropriate for certain investors. See the section in this Official Statement entitled “CERTAIN INVESTOR CONSIDERATIONS” for a discussion of certain factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the 2018 Bonds.

The 2018 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by The Law Offices of Phillips & Bordallo, P.C., counsel for the Authority, and for the Underwriters by their counsel, Kutak Rock LLP. Certain legal matters will be passed upon by Orrick, Herrington & Sutcliffe LLP as disclosure counsel to the Authority. It is expected that the 2018 Bonds in book-entry form will be available for delivery through the DTC book-entry system on or about July 11, 2018.

Citigroup

RBC Capital Markets

June __, 2018

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2018 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful under the securities laws of such jurisdiction.

MATURITY SCHEDULES

\$31,655,000*

**Port Authority of Guam
Port Revenue Bonds, 2018 Series A
(Governmental/Non-AMT)**

\$15,350,000 % Term Bonds due July 1, 2043; Yield/Price %; CUSIP[†] Number
\$16,305,000 % Term Bonds due July 1, 2048; Yield/Price %; CUSIP[†] Number

\$23,065,000*

**Port Authority of Guam
Port Revenue Bonds, 2018 Series B
(Private Activity-AMT)**

Maturity (July 1)	Principal Amount	Interest Rate	Yield/Price	CUSIP[†] Number
2019	\$1,330,000			
2022	1,770,000			
2023	2,425,000			
2024	2,255,000			
2029	1,420,000			
2030	1,490,000			
2031	1,565,000			
2032	1,645,000			
2033	1,725,000			
2034	1,810,000			
2035	1,900,000			
2036	2,000,000			
2037	1,730,000			

\$17,880,000*

**Port Authority of Guam
Port Revenue Bonds, 2018 Series C
(Federally Taxable)**

Maturity (July 1)	Principal Amount	Interest Rate	Yield/Price	CUSIP[†] Number
2020	\$2,240,000			
2021	2,330,000			
2022	660,000			
2023	125,000			
2024	420,000			
2025	2,810,000			
2026	2,950,000			
2027	3,095,000			
2028	3,250,000			

* Preliminary, subject to change.

[†] Copyright 2018, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Capital IQ. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with either the Authority or the Guam Economic Development Authority ("GEDA") and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity or maturities are subject to change after the issuance of the 2018 Bonds. None of the Authority, GEDA or the Underwriters takes responsibility for the accuracy of the CUSIP numbers, and no representation is made as to their correctness on the applicable 2018 Bond certificates or in this Official Statement.

BOARD OF DIRECTORS

Francisco G. Santos
Chairman

Oscar A. Calvo
Vice Chairman

Melanie R. Mendiola
Secretary

Maria D.R. Taitano
Member

Nathan T. Taimanglo
Member

PORT AUTHORITY OF GUAM

Joanne M.S. Brown
General Manager

Margret Duenas
Administrative Services Officer

Felix R. Pangelinan
Deputy General Manager, Operations

Felixberto Alfred Duenas
Deputy General Manager, Finance

GOVERNMENT OF GUAM

Edward J. B. Calvo
Governor

Raymond S. Tenorio
Lieutenant Governor

GUAM ECONOMIC DEVELOPMENT AUTHORITY

Jay Rojas
Administrator

Mana Silva Tajjeron
Deputy Administrator

Christina Garcia
Manager, Public Finance Division

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel
Orrick, Herrington & Sutcliffe LLP

Trustee and Depositary
Bank of Guam
Hagåtña, Guam

Independent Auditors
Deloitte & Touche LLP

Co-Trustee and Paying Agent
U.S. Bank National Association
Los Angeles, California

The Underwriters have provided the following sentence for inclusion in this Official Statement: “The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.”

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2018 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2018 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

Certain statements contained or incorporated by reference in this Official Statement are not intended to reflect historical facts but are estimates and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the expectations or forecasts described herein. In this respect, the words “estimate,” “project,” “forecast,” “anticipate,” “expect,” “assume,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinion, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The Authority does not plan to issue any updates or revisions to such forward-looking statements whether or not its expectations, or any events, conditions or circumstances on which such statements are based, do or do not occur.

The information set forth in this Official Statement has been furnished by the Authority and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion stated herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information or opinions stated herein or in the affairs of the Authority since the date hereof.

The 2018 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The 2018 Bonds have not been registered or qualified under the securities laws of any state.

In connection with this offering the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2018 Bonds offered hereby at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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OFFICIAL STATEMENT

\$31,655,000*
Port Authority of Guam
Port Revenue Bonds,
2018 Series A
(Governmental/Non-AMT)

\$23,065,000*
Port Authority of Guam
Port Revenue Bonds,
2018 Series B
(Private Activity-AMT)

\$17,880,000*
Port Authority of Guam
Port Revenue Bonds,
2018 Series C
(Federally Taxable)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and appendices hereto (collectively, the “**Official Statement**”), is to provide information in connection with the offering by the Jose D. Leon Guerrero Commercial Port, also known as the Port Authority of Guam (the “**Authority**”), of its \$31,655,000* Port Revenue Bonds, 2018 Series A (Governmental/Non-AMT) (the “**2018 Series A Bonds**”), its \$23,065,000* Port Revenue Bonds, 2018 Series B (Private Activity-AMT) (the “**2018 Series B Bonds**”), and its \$17,880,000* Port Revenue Bonds, 2018 Series C (Federally Taxable) (the “**2018 Series C Bonds**”) and, together with the 2018 Series A Bonds and the 2018 Series B Bonds, the “**2018 Bonds**”).

This Introduction is not a summary of this Official Statement, but is only a brief description of, and is qualified by, more complete and detailed information contained in this Official Statement. The Introduction should not be relied upon to provide all of the information necessary to make an informed decision about purchasing the 2018 Bonds. A full review should be made of the entire Official Statement. The offering of 2018 Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms used herein that are not otherwise defined shall have the meanings set forth in “APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

The 2018 Bonds

The Authority is issuing the 2018 Bonds to (i) fund capital improvements to the Jose D. Leon Guerrero Commercial Port (the “**Port**”); (ii) retire certain of the Authority’s outstanding debt; (iii) provide for capitalized interest on the 2018 Bonds for up to two years; (iv) fund a deposit to the Bond Reserve Fund (as defined herein); and (v) pay costs of issuing the 2018 Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 2018 Bonds are authorized to be issued pursuant to Article 2 of Chapter 10 of Title 12 of the Guam Code Annotated, as amended (the “**Act**”), and a master indenture, dated as of July 1, 2018 (the “**Master Indenture**”), as supplemented, including as supplemented by a first supplemental indenture, to be dated as of July 1, 2018 (the “**First Supplemental Indenture**” and, together with the Master Indenture, the “**Indenture**”), each by and among the Authority, Bank of Guam, as trustee (the “**Trustee**”) and depository, and U.S. Bank National Association, as co-trustee (the “**Co-Trustee**”).

The issuance, terms and conditions of the 2018 Bonds were approved by the Legislature of Guam (the “**Legislature**”) on December 19, 2017. The issuance, terms and conditions of the 2018 Bonds were approved by the Guam Public Utilities Commission (the “**PUC**”) on April 26, 2018. The issuance, terms and conditions of the 2018 Bonds were approved by the Board of Directors of the Authority (the “**Authority Board**”) on April 19, 2018. The issuance, sale and delivery of the 2018 Bonds were approved by the Board of Directors of the Guam Economic Development Authority (“**GEDA**”) on April 12, 2018.

* Preliminary, subject to change.

Security and Sources of Payment for the 2018 Bonds

The Bonds (as defined herein), including the 2018 Bonds, are limited obligations of the Authority, payable solely from and secured by a pledge of the Revenues (as defined herein) as provided in the Indenture. The Bonds are not a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues pledged to the payment thereof as provided in the Indenture.

“**Bonds**” means the Port Authority of Guam Port Revenue Bonds authorized by, and at any time outstanding pursuant to, the Indenture, including the 2018 Bonds and any Additional Bonds authorized by, and at any time outstanding pursuant to, the Indenture.

“**Additional Bonds**” means bonds, notes or other obligations of the Authority payable from Revenues and ranking on a parity with the Bonds then outstanding and authorized to be issued under and pursuant to the Indenture.

In addition, Section 10221 of the Act creates a statutory lien on the Port’s Revenues.

Neither the Government of Guam (the “**Government**”) nor any political subdivision thereof is obligated to pay the principal of, redemption price, if applicable, or interest on the Bonds, except from Revenues, and neither the Authority, the Government nor any political subdivision thereof has pledged its faith or credit to the payment of the principal of, redemption price, if applicable, or interest on the Bonds.

See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The Authority and the Port

The Jose D. Leon Guerrero Commercial Port, also known as the Port Authority of Guam, was established as a public corporation and an autonomous agency of the Government by Public Law 13-87 in October 1975. The Authority is mandated to provide for the needs of ocean commerce, shipping, recreational, and commercial/boating, as well as navigation of the Territory of Guam. The Authority is also responsible for the development and operation of recreational boating facilities, public harbors, small boat marinas and other associated marine facilities in Guam.

The Authority operates the Jose D. Leon Guerrero Commercial Port, the only commercial seaport in the Territory of Guam and the primary seaport in Micronesia. The Port is the largest U.S. deep water port in the Western Pacific and currently handles approximately two million tons of cargo a year. As the only commercial port on Guam, Guam’s citizens depend on the Port to provide essential goods – most notably, food products, building materials and fuel. In addition, the U.S. military relies on the Port to handle nearly all military cargo and equipment moving in and out of Guam. Currently, more than 90% of the total volume of goods and supplies needed to support activities on Guam flow through the Port. Guam’s only alternative to the Port for delivery of essential goods is air freight which is significantly more expensive. See “THE PORT AUTHORITY OF GUAM” and “THE PORT.”

Consulting Engineer’s Report

WSP (formerly Parsons Brinckerhoff) (“**WSP**” or the “**Consulting Engineer**”) has been retained by the Authority to provide the Jose D. Leon Guerrero Commercial Port of Guam 2018 Consulting Engineer’s Report (the “**Consulting Engineer’s Report**”) in connection with the issuance of the 2018 Bonds. The Consulting Engineer’s Report is included in this Official Statement as APPENDIX A. See “CONSULTING ENGINEER’S REPORT” and “APPENDIX A—CONSULTING ENGINEER’S REPORT.”

Investment Considerations

There are important investment considerations and risks associated with the purchase of the 2018 Bonds. See “CERTAIN INVESTOR CONSIDERATIONS” for a discussion of some of these considerations and risks. Any one or more of the considerations and risks discussed, and others, could lead to a decrease in the market value and/or the ability to sell the 2018 Bonds in the secondary market. Potential purchasers of the 2018 Bonds are advised to review this entire Official Statement carefully.

Continuing Disclosure

As a condition to the issuance and sale of the 2018 Bonds, the Authority will covenant for the benefit of the holders and beneficial owners of the 2018 Bonds to provide annually certain financial information and operating data and to provide notice of certain enumerated events to assist the Underwriters in complying with the Securities and Exchange Commission's Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "**Rule**"). See "CONTINUING DISCLOSURE" and the proposed form of Continuing Disclosure Agreement included herein as APPENDIX F.

Miscellaneous

Descriptions of the 2018 Bonds, the Authority and Guam are provided herein. Such descriptions do not purport to be comprehensive or definitive. All references to the 2018 Bonds and the Indenture are qualified in their entirety by reference to the forms thereof.

The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made with respect hereto shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof.

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any of the 2018 Bonds.

PLAN OF FINANCE

Purposes of the 2018 Bonds

The Authority is issuing the 2018 Bonds to (i) fund certain capital improvements to the Port; (ii) retire certain of the Authority's outstanding debt; (iii) provide for capitalized interest on the 2018 Bonds for up to two years; (iv) fund a deposit to the Bond Reserve Fund; and (v) pay costs of issuing the 2018 Bonds.

A portion of the proceeds of the 2018 Bonds will be used to finance certain capital projects pursuant to the Authority's 2018-2022 Capital Improvement Plan (the "**2018-2022 CIP**"), as further described herein. For more information regarding the 2018-2022 CIP and other sources of financing for the 2018-2022 CIP, see "PORT IMPROVEMENT PROGRAM—Capital Improvement Plan" and "APPENDIX A—CONSULTING ENGINEER'S REPORT—PORT IMPROVEMENT PROGRAM."

A portion of the proceeds of the 2018 Bonds will be used to retire for debt service savings certain of the Authority's outstanding debt, which consist of: (i) a \$2.0 million loan from the United States Department of Agriculture, outstanding in the amount of approximately \$1.3 million as of March 31, 2018; (ii) a \$10.0 million loan from the Bank of Guam, outstanding in the amount of approximately \$7.7 million as of March 31, 2018; and (iii) a \$12.0 million loan from the Australia and New Zealand Banking Group ("**ANZ**"), outstanding in the amount of approximately \$9.0 million as of March 31, 2018. In addition, the Authority's only other outstanding loan, a \$3.5 million loan from ANZ, outstanding in the amount of approximately \$2.1 million as of March 31, 2018, will also be retired from other available funds of the Authority in conjunction with the issuance of the 2018 Bonds. After the issuance of the 2018 Bonds, the only outstanding debt of the Authority will be the 2018 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2018 Bonds are expected to be applied as shown below:

	2018 Series A Bonds	2018 Series B Bonds	2018 Series C Bonds	Total
Sources:				
Principal Amount of Bonds				
[Net] Original Issue [Premium/Discount]				
Other Available Moneys				
Total Sources				
Uses:				
Deposit to Construction Fund				
Retirement of Existing Debt				
Deposit to Capitalized Interest Account				
Deposit to Bond Reserve Fund				
Costs of Issuance ⁽¹⁾				
Total Uses				

⁽¹⁾ Includes Underwriters' discount, Trustee and Co-Trustee fees, legal fees and expenses, rating agency fees, printing costs and other miscellaneous costs of issuance.

THE 2018 BONDS

General

The 2018 Bonds will be issued as fully registered Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. The 2018 Bonds will be dated their date of delivery, and interest thereon (based on a 360-day year of twelve 30-day months) will be payable on January 1 and July 1 of each year, commencing January 1, 2019 (each, an **"Interest Payment Date"** for the 2018 Bonds).

The principal of and premium, if any, on each 2018 Bond will be payable in lawful money of the United States of America to the Owner of such Bond, upon the surrender of such Bond at the Principal Office of any Paying Agent (as defined herein) for such Bond. The interest on each 2018 Bond will be payable in like lawful money to the person whose name appears on the bond registration books of the Registrar (as defined herein) for such Bond as the Owner of such Bond as of the close of business on the Record Date (as defined herein) for such Bond preceding the Interest Payment Date, whether or not such Record Date is a Business Day (as defined herein), such interest to be paid by check or mailed by first class mail to such Owner at such address as appears on such registration books or at such address as such Owner may have filed with the Registrar for that purpose. Upon the written request of a registered owner of one million dollars (\$1,000,000) or more in aggregate principal amount of 2018 Bonds, payment of interest on and principal (including redemption price) of such Bonds will be made by wire transfer from the Paying Agent to the registered owner of such Bonds. Any such principal payment by wire transfer will nevertheless be subject to prior surrender of the 2018 Bonds with respect to which such payment is made. Each payment of interest or principal on 2018 Bonds, whether by check, draft or wire transfer, will be accompanied by information specifying for each maturity of such Bonds with respect to which such payment is being made, the amount and the CUSIP number (if available).

Each 2018 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the Record Date preceding any Interest Payment Date to the Interest Payment Date, inclusive, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before December 15, 2018, in which event it will bear interest from its date of delivery; provided, however, that if, at the time of authentication of any 2018 Bond, interest is in default on Outstanding Bonds of such Series, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Bonds of such Series.

The “**Record Date**” for all scheduled payments of principal of and interest on the 2018 Bonds will be the 15th day of the calendar month next preceding the date each such payment is due, whether or not such 15th day is a Business Day.

“**Business Day**” means any day other than a Saturday, Sunday or other day upon which banks in the cities in which the Principal Offices of the Trustee, the Co-Trustee, each Depositary, each Paying Agent and each Credit Provider are located are authorized or required to be closed.

Redemption*

Extraordinary Optional Redemption. The 2018 Bonds are subject to redemption on any date prior to their respective stated maturities, as a whole, or in part so that the reduction in Annual Debt Service for the 2018 Bonds for each Bond Year after such redemption will be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the Port or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the Port, under the circumstances and upon the conditions and terms set forth in the Indenture, at the greater of par or Amortized Value, plus accrued interest to the date fixed for redemption, without premium. “**Amortized Value**” means on any interest payment date, the then current value of the bond amortizing the original issue premium over the period ending on the first call date using the constant yield method.

Optional Redemption of 2018 Series A Bonds and 2018 Series B Bonds. The 2018 Series A Bonds and the 2018 Series B Bonds maturing on or after July 1, 20__, are subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available moneys, on any date on or after July 1, 20__, as a whole, or in part by such maturities or portions of maturities as will be determined by the Authority (or by lot within a maturity in the absence of such a determination), at a redemption price equal to the principal amount of each 2018 Series A Bond or 2018 Series B Bond, as applicable, called for redemption plus interest accrued to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption of 2018 Series A Bonds. The 2018 Series A Term Bonds maturing on July 1, 20__, are subject to redemption prior to their stated maturity in part, by lot, on July 1 of each year from Mandatory Sinking Account Payments, commencing July 1, 20__, at a redemption price equal to their principal amount, plus accrued interest thereon to the date fixed for redemption, without premium, in the years and in the amounts, as set forth below:

<u>Year</u>	<u>Amount</u>
† Final Maturity	

Selection of 2018 Series A Bonds and 2018 Series B Bonds for Redemption. In the event that less than all of the 2018 Series A Bonds or the 2018 Series B Bonds are to be redeemed, the respective Series 2018 A Bonds or the 2018 Series B Bonds (or portions thereof) to be redeemed will be selected by the Authority or, in the absence of such a selection by the Authority, by the applicable Registrar by lot within such maturity in such manner as the Registrar may determine.

Make-Whole Optional Redemption for the 2018 Series C Bonds. From the date of issuance, the 2018 Series C Bonds are subject to redemption prior to their respective stated maturities at the option of the Authority, in whole or in part, on any date at a redemption price equal to the greater of:

- (1) 100% of the principal amount of the 2018 Series C Bonds to be redeemed; or

* Preliminary, subject to change.

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such 2018 Series C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2018 Series C Bonds are to be redeemed, discounted to the date on which such 2018 Series C Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described below), plus ___ basis points, plus, in each case, accrued interest on such 2018 Series C Bonds to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Series 2018C Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2018C Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Calculation of Redemption Price. At the request of the Authority, the redemption price of the 2018 Series C Bonds to be redeemed at the option of the Authority will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Authority at the Authority’s expense to calculate such redemption price. The Authority may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Selection of 2018 Series C Bonds for Redemption. In the event that less than all of the 2018 Series C Bonds of any maturity are to be redeemed, such Bonds (or portions thereof) to be redeemed will be selected by the Authority or by the Registrar on a pro rata basis from such maturity or mandatory sinking fund payment within such maturity.

Notice of Redemption. Notice of redemption (except as provided below) will be given, not less than 30 nor more than 60 days before the date fixed for redemption, by first class mail to each of the registered owners of Bonds designated for redemption at their addresses appearing on the Bond registration books of the applicable Registrar on the date the Bonds to be redeemed are selected. Each notice of redemption will state the redemption date, the place or places of redemption, the Series and maturities to be redeemed, and, if less than all of any such maturity, the numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and will also state that on said date there will become due and payable on each of said Bonds the redemption price thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered, with a written instrument of transfer duly executed by the registered owner thereof or by such registered owner’s attorney duly authorized in writing. No defect in or failure to give such mailed notice of redemption will affect the validity of proceedings for the redemption of such Bonds. Each notice of redemption will also state the CUSIP number, date of issue and interest rate on each Bond, or portion thereof, to be redeemed, and will include the redemption agent name and address; provided, however, that failure to include any of such information in any redemption notice, or any inaccuracy in any such information, will not affect the sufficiency of the proceedings for redemption of any Bonds.

Partial Redemption. Upon surrender of any Bond redeemed in part only, the Authority will execute and the applicable Registrar will authenticate and deliver to the registered owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations, and of the same Series, maturity and tenor, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys being held by the Trustee, the Co-Trustee or Paying Agents for payment of the redemption price of, and interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption on the redemption date designated in such notice, such Bonds (or such portions) will become due and payable at the redemption price specified in such notice plus interest accrued thereon to the date fixed for redemption, interest on the Bonds so called for redemption will cease to accrue, said Bonds (or portions thereof) will cease to be entitled to any benefit or security under this

Indenture, and the Owners of said Bonds will have no rights in respect thereof except to receive payment of said redemption price and accrued interest.

All Bonds purchased or redeemed pursuant to the provisions of this Indenture will be cancelled upon surrender thereof and delivered to or upon the Order of the Authority.

Rescission of Notice of Redemption. The Authority may, at its option and expense, prior to the date fixed for redemption in any notice of redemption rescind and cancel such notice of redemption.

Trustee, Co-Trustee, Registrar and Paying Agent

The Bank of Guam has been appointed to act as the Trustee for the Bonds, including the 2018 Bonds, and U.S. Bank National association has been appointed to act as Co-Trustee, registrar (the “**Registrar**”) and paying agent (the “**Paying Agent**”) for the 2018 Bonds.

Book-Entry System

The 2018 Bonds will be delivered in fully registered form only, and when delivered will be registered in the name of Cede & Co., as nominee of DTC. DTC acts as securities depository for the 2018 Bonds. Ownership interests in the 2018 Bonds may be purchased in book-entry only form, in the denominations set forth above. The Indenture provides that, so long as DTC acts as securities depository for the 2018 Bonds, the Authority, the Trustee, the Co-Trustee, the Registrar and the Paying Agent may treat DTC as the absolute owner of such 2018 Bonds for all purposes and that none of the Authority, the Trustee, the Co-Trustee, the Registrar and the Paying Agent will have any liability with respect to (i) the accuracy of the records of DTC or any Participant with respect to any beneficial ownership interest in the 2018 Bonds, (ii) the delivery to any Participant, any Beneficial Owner or any other person, other than DTC, of any notice with respect to the 2018 Bonds, (iii) the payment to any Participant, any Beneficial Owner or any other person, other than DTC, of any amount with respect to principal or redemption price of or interest on the 2018 Bonds, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the 2018 Bonds or (v) any consent given or other action taken by DTC as Holder of the 2018 Bonds. See “APPENDIX G—BOOK-ENTRY SYSTEM.”

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Revenues

Pursuant to the Indenture, the Authority has pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payment of Credit Agreement Payments and Parity Payment Agreement Payments in accordance with their terms, all of the Revenues. Said pledge constitutes a lien on and security interest in such Revenues and will attach, be perfected and be valid and binding from and after delivery by the applicable Registrar of the first Series of Bonds under the Indenture, without any physical delivery of such Revenues or further act. In addition, Section 10221 of the Act creates a statutory lien on the Port’s Revenues (as defined below) that is valid and binding from the time the Bonds are issued.

“**Revenues**” means all gross income and other amounts received or receivable by the Authority as revenues of any kind from the ownership or operation of any part of the Port or the supplying and furnishing of services and commodities thereof, including all rates, rentals, tolls, fees and charges assessable and chargeable by the Authority in respect to dockage, wharfage, demurrage and rates appertaining to the system or derived from the rental of all or part of the system or from the sale or rental of any commodities or goods in connection with the Port, all amounts received by the Authority pursuant to any Payment Agreement, and all proceeds of insurance or grants covering business interruption loss (and related losses and expenses relating to the Port), together with all interest, profits or other income derived from the investment of amounts in the Revenue Fund, together with any additional amounts designated by the Authority as “Revenues” pursuant to a Supplemental Indenture, **but not including:** (1) amounts received as insurance proceeds (except as hereinabove provided) or from the sale, transfer or other disposition of, or upon the taking by or under the threat of eminent domain of, all or any part of the Port (which moneys will be received and disposed of pursuant to the Indenture as the case may be), (2) proceeds from any securities issued by the Authority or proceeds

from loans obtained by the Authority, (3) the proceeds of any court or arbitration award or settlement in lieu thereof received by the Authority, (4) amounts received by the Authority as gifts or as grants (except as hereinabove provided), whether restricted or unrestricted, (5) amounts derived from any Special Facility and which are pledged or assigned as security for the payment of indebtedness incurred to finance such Special Facility; (6) Crane Surcharges, Facility Maintenance Fees and Public Marina Revenues; and (7) other amounts (except as hereinabove provided), the use of which is restricted by the donor or grantor.

Crane Surcharges, Facility Maintenance Fees, and Public Marina Revenues, which made up approximately 16% of the Port's revenues in Fiscal Year 2017, are excluded from the definition of "Revenues" due primarily to their dedicated or restricted uses. The definition of each term is presented below.

"Crane Surcharges" means and refers to one or more charges imposed by the Authority on foreign and domestic carriers on inbound, outbound and transshipment containers handled at the Port, and on breakbulk cargo designated for gantry crane loan payments, insurance, maintenance, spare parts and to the crane replacement sinking fund of the type approved by the Board pursuant to its resolution number 2012-04A, or any amended or successor rates, fees or charge established for similar purposes. See also "THE PORT—Major Sources of Operating Revenue—*Crane Surcharges*."

"Facility Maintenance Fee" or **"FMF"** means and refers to one or more fees or charges imposed by the Authority on bills of lading, assessed for the use of Port facilities to provide funding required to be applied to the maintenance, replacements and repair of Port facilities affecting cargo movement, of the type approved by the Guam Public Utilities Commission on January 29, 2010, or any amended or successor rates, fees or charge established for similar purposes. See also "THE PORT—Major Sources of Operating Revenue—*Facility Maintenance Fee*."

"Public Marina Revenues" means all revenues derived by the Authority from the ownership, management and/or operation of the public marinas commonly known as Gregorio D. Perez Marina and Agat Marina. See also "THE PORT—Marinas."

The Authority has covenanted in the Indenture that, so long as any Bonds are Outstanding, the Authority will not issue any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues prior to or on a parity with the Bonds, the Parity Payment Agreements and the Credit Agreement Payments, other than the Bonds, the Parity Payment Agreements and the Credit Agreement Payments.

The Authority may authorize and issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which as to principal or interest, or both, (1) are payable from Revenues after and subordinate to the payment from Revenues of the principal of and interest on the Bonds, the Parity Payment Agreement Payments and Credit Agreement Payments, or (2) are payable from moneys which are not Revenues as such term is defined in the Indenture.

Allocation of Revenues

The Authority is required to deposit all Revenues upon the receipt thereof in the Revenue Fund. Pursuant to the Indenture, on or before the fifth day of each calendar month, the Depositary for the Revenue Fund will transfer from the Revenue Fund (to the Trustee as necessary) for deposit into one or more of the following respective separate funds, the following amounts in the following order of priority, the requirements of each such fund or account (including the making up of any deficiencies in any such fund or account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any transfer is made to any fund subordinate in priority:

- (A) into the Operation and Maintenance Fund (the **"Operation and Maintenance Fund"**), an amount equal to the amount of Operation and Maintenance Expenses budgeted by the Authority, pursuant to the budget (or revised budget, as the case may be) filed in accordance with the Indenture, to be paid from Revenues during the next succeeding calendar month (including any amount to be held as a reserve for transfer to the Rebate Fund) plus the amount of any Other Credit Agreement

Payments then due and payable or to become due and payable during such month not otherwise included in such amount;

- (B) into the Debt Service Fund (the “**Debt Service Fund**”) held by the Trustee, an amount equal to the amount necessary to increase the amount in the Debt Service Fund to the aggregate amount for all Outstanding Bonds of all unpaid interest, principal and Mandatory Sinking Account Payments and for all Outstanding Parity Payment Agreements of all Parity Payment Agreement Payments with respect thereto and for all Outstanding Credit Agreements of all Credit Agreement Reimbursement Payments due and payable to the extent not otherwise included in such amount which will be required to have been transferred to the Debt Service Fund on the basis of the following transfer requirement rules (after taking into account amounts transferred and to be transferred from any Construction Account to pay Capitalized Interest):
- (1) an amount equal to the amount of interest payable on each Bond on a current uncompounded basis on any Interest Payment Date will be transferred in equal monthly amounts over the Interest Accrual Period for such Bond ending on such Interest Payment Date (or in the case of Variable Rate Bonds 110% of the amount of interest accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month); provided that to the extent that a Qualified Counterparty is obligated to make payments to the Authority on or prior to such Interest Payment Date pursuant to an Outstanding Payment Agreement Related to any Bonds, an amount equal to the amount of any such payment obligation will be transferred from the Revenue Fund to the Debt Service Fund on the date such payment is due and the amount of each monthly transfer with respect to such Bonds required by this subparagraph (1) during the Interest Accrual Period (or portion thereof) over which such payment obligation accrues will be reduced by an amount equal to the amount of such Qualified Counterparty’s payment obligation accruing during the next preceding calendar month;
 - (2) the amount of interest payable on each Bond on a deferred compounded basis on any Interest Payment Date will be transferred in substantially equal monthly amounts over the period during which such interest accrues on such basis;
 - (3) the amount of the principal of each Bond will be transferred in equal monthly amounts over the Principal Payment Period for such Bond ending on the maturity date for such Bond;
 - (4) the amount of each Mandatory Sinking Account Payment for Bonds will be transferred in equal monthly amounts over the Principal Payment Period for such Bonds ending on the date such Mandatory Sinking Account Payment is due;
 - (5) the amount of any Parity Payment Agreement Payment payable on any Payment Agreement Payment Date will be transferred (a) in the case of such payments calculated based on a fixed rate, in equal monthly installments over the Payment Agreement Payment Accrual Period for such Payment Agreement Payment ending on such Payment Agreement Payment Date and (b) in the case of such payments calculated based on a variable rate, in monthly installments equal to 110% of the amount of such obligation accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month; and
 - (6) to the extent not otherwise included in amounts described in subparagraphs (1) through (5) above, the amount of any Credit Agreement Reimbursement Payment due and payable will be transferred.
- (C) into the Bond Reserve Fund (the “**Bond Reserve Fund**”) held by the Trustee, the amount, if any, needed to increase the amount in the Bond Reserve Fund to the Bond Reserve Fund Requirement as of the date of such transfer;

- (D) into the Subordinate Securities Fund (the “**Subordinate Securities Fund**”) (and any accounts therein), the amount, if any, needed to increase the amount in such Fund and each such account to its requirement (including any requirements for reasonable debt service reserves and requirements related to Payment Agreements that constitute Subordinate Securities (including Termination Payments)) established by each resolution, indenture or other instrument pursuant to which Subordinate Securities are issued and outstanding;
- (E) into the Operation and Maintenance Reserve Fund (the “**Operation and Maintenance Reserve Fund**”), one-fourth (1/4) of the amount, if any, needed to increase the amount in the Operation and Maintenance Reserve Fund to an amount equal to the Operation and Maintenance Reserve Fund Requirement;
- (F) into the Renewal and Replacement Reserve Fund (the “**Renewal and Replacement Reserve Fund**”), one-fourth (1/4) of the amount, if any, needed to increase the amount in the Renewal and Replacement Reserve Fund to the Renewal and Replacement Reserve Fund Requirement; *provided, however*, that prior to the Fiscal Year beginning October 1, 2023, the deposit into such fund each month shall not be required to be greater than one equal monthly installment of the then-applicable Renewal and Replacement Reserve Fund Requirement, calculated based on the number of months remaining until October 1, 2023, such that the amount on deposit on October 1, 2023 is at least equal to the then-applicable Renewal and Replacement Reserve Fund Requirement; and
- (G) into the Capital Improvement Fund (the “**Capital Improvement Fund**”), the balance remaining in the Revenue Fund after the foregoing deposits.

“**Operation and Maintenance Reserve Fund Requirement**” means an amount equal to 90 days, on average, of the total Operation and Maintenance Expenses budgeted by the Authority (based on the actual number of days in such fiscal year), pursuant to the budget filed in accordance with the Indenture, for the then current Fiscal Year.

Upon the issuance of the 2018 Bonds, the Operation and Maintenance Reserve Fund Requirement will be approximately \$10.6 million. The Operation and Maintenance Reserve Fund Requirement will be fully funded with available cash from the Authority’s existing operations account.

“**Renewal and Replacement Reserve Fund Requirement**” means, as of any date of calculation, an amount equal to the greater of (i) an amount equivalent to one 30-day month, calculated on an average basis based on the actual number of days in such fiscal year, of the Operation and Maintenance Expenses budgeted by the Authority pursuant to the budget (or revised budget, as the case may be), filed in accordance with the Indenture, for the then current Fiscal Year, or (ii) \$3 million.

Upon the issuance of the 2018 Bonds, the Renewal and Replacement Reserve Fund Requirement will be approximately \$3.5 million and that requirement will be required to be funded in full by June 2023.

“**Operation and Maintenance Expenses**” means such reasonable and necessary current expenses of the Authority, paid or accrued, for operation, maintenance and repair of the Port as may be determined by the Board, and the term may include at the Board’s option, except as limited by contract or otherwise limited by law, without limiting the generality of the foregoing: (a) Legal and overhead expenses of the Authority directly related and reasonably allocable to the administration of the Port; (b) Fidelity bond and insurance premiums appertaining to the Port or a reasonably allocable share of a premium of any blanket bond or policy pertaining to the Port; (c) Contractual services, professional services, salaries, administrative expenses, and costs of labor appertaining to Port, including fees and expenses of the Trustee; (d) The costs incurred in the collection of all or any part of the Revenues; and (e) Any costs of utility services furnished to the Port by the Authority or otherwise. However, the term “Operation and Maintenance Expenses” as used herein does not include: (i) Any allowance for depreciation; (ii) Any costs of Port capital renewals, replacements, major repairs, reconstruction, improvements, extensions or betterments; (iii) Any accumulation of reserves for Port capital renewals, replacements, major repairs or reconstruction; (iv) Any reserves for operation, maintenance or repair of the Port; (v) Any liabilities incurred in the acquisition or improvement of any properties comprising the Port or any combination thereof; or (vi) Any other legal liability not based on contract.

For purposes of the definition of “Operation and Maintenance Expenses,” “**Port**” means all works, property and facilities now owned, operated or leased by the Authority, and used by and useful to the Authority for providing a deep water commercial port known as the Jose D. Leon Guerrero Commercial Port, small boat marinas, and all related facilities of Guam located on Cabras Island, Apra Harbor, Agana Boat Basin, and all other Government of Guam small boat marinas, comprising all harbor works and facilities of the Authority, including all channels, waterways, basins seawalls, docks, piers, land areas, utilities, warehouses, cargo handling machinery and equipment, tugboats, barges, fire boats and other works, properties, structures or other facilities in or upon or pertaining to the lands, improvements and waters of the Authority used or useful for, or necessary for or incidental to, the development and operation of the Jose D. Leon Guerrero Commercial Port, small boat marinas, and all related facilities of Guam located on Cabras Island, Apra Harbor, Agana Boat Basin, and all other Government of Guam small boat marinas, together with all improvements to such works, property and facilities or any part thereof hereafter acquired or constructed by the Authority, now or hereafter existing, owned and/or operated by the Authority or its contractors, agents or subcontractors.

See “APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” for definitions of capitalized terms used above and descriptions of certain of the funds and accounts referenced above.

Rate Covenant

Pursuant to the Indenture, the Authority has covenanted to at all times fix, prescribe and collect rates, fees and charges in connection with the services furnished by the Port which will be sufficient to yield the sum of Net Revenues Available for Debt Service during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year (the “**Debt Service Coverage Ratio**”) and to yield Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required by the Indenture for such Fiscal Year, as described in (A) through (F) under “—Allocation of Revenues.”

“**Net Revenues Available for Debt Service**” means, for any particular period, (a) the sum of (i) all of the Revenues (other than Payment Agreement Receipts) received during such period, plus (ii) the sum of any Crane Surcharges, if any, applied or designated by the Authority as available and permitted to be applied to the payment of principal or interest on any Bonds or portions thereof during such period, less (b) the difference of (x) all Operation and Maintenance Expenses incurred during such period less (y) the sum of any Crane Surcharges, if any, applied or designated by the Authority as available and permitted to be applied to the payment of Operation and Maintenance Expenses thereof during such period.

The Indenture provides that if, at the end of a Fiscal Year the sum of Net Revenues Available for Debt Service were less than 1.25 times Aggregate Annual Debt Service for such Fiscal Year, or if Revenues were less than the aggregate amount of all transfers required by the Indenture for such Fiscal Year, as described in (A) through (F) under “—Allocation of Revenues,” the Authority will promptly employ a Port Consultant to make recommendations as to a revision of such rates, fees and charges or the methods of operation of the Port, which recommendations will be provided within 90 days of such engagement. The Authority will, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Authority, the Owners and each Credit Provider, revise such rates, fees and charges or methods of operation and will take such other actions as will be in conformity with such recommendations.

The Indenture also provides that if the Authority complies in all material respects with the reasonable recommendations of the Consulting Engineer with respect to said rates, fees, charges and methods of operation or collection, or makes a good faith determination that such recommendations are not in the best interests of the Authority, then the Authority will be deemed to have complied with the Indenture for the 12 ensuing consecutive months following the delivery of the recommendations of the Consulting Engineer; provided, that Net Revenues Available for Debt Service are in no event less than Aggregate Annual Debt Service for any Fiscal Year ending during such period.

Bond Reserve Fund

The Indenture establishes a Bond Reserve Fund to be used and withdrawn by the Trustee solely for the purpose of paying debt service on Bonds (including Payment Agreement Payments to the extent provided in any Supplemental Indenture) in the event of a deficiency in the Debt Service Fund, in the manner and to the extent set forth in the Indenture. So long as the Authority is not in default under the Indenture, any amount in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement will be transferred to the Revenue Fund.

“Bond Reserve Fund Requirement” means, as of any particular date of calculation, with respect to all Bonds then Outstanding, an amount equal to the aggregate amount of all Bond Reserve Account Requirements.

“Bond Reserve Account Requirement” means, as of any particular date of calculation, with respect to any Series of Bonds, an amount equal to the amount calculated for such date as specified by the Supplemental Indenture providing for the issuance of such Series of Bonds.

If and to the extent provided by Supplemental Indenture, the Bond Reserve Fund Requirement may be wholly or partially satisfied by a Credit Facility. Notwithstanding anything to the contrary contained in the Indenture, such Supplemental Indenture may also provide that a draw on such Credit Facility will be made only after all cash in the Bond Reserve Fund has been withdrawn, and that if a drawing or other claim on such Credit Facility is honored, amounts available pursuant to the Indenture for deposit in the Bond Reserve Fund will be applied by the Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing or other claim, and the Trustee will give any notice of such reimbursement required by the applicable Credit Agreement. No such Credit Facility will be given any priority over any other such Credit Facility as to draws or repayments.

Pursuant to Public Law 34-70, the Bond Reserve Fund can be funded in an amount not to exceed \$6 million. Upon the issuance of the 2018 Bonds, the Bond Reserve Account Requirement for the 2018 Bonds will be an amount equal to 125% of Average Annual Debt Service on all Bonds (\$ _____) and will be fully funded with proceeds of the 2018 Bonds.

See “APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—REVENUES AND FUNDS—Application of Bond Reserve Fund.”

Additional Series of Bonds

The Indenture permits the Authority to issue Additional Bonds secured on a parity with the Outstanding Bonds, including the 2018 Bonds, upon the satisfaction of the requirements set forth in the Indenture, including, among other things, the filing of the documents described below, as applicable, with the Trustee.

If and to the extent that a Series of Additional Bonds is being issued to provide moneys for deposit in a Construction Account, the following certificates and reports are to be filed:

(A) a certificate of a Consulting Engineer setting forth (I) the projected Date of Completion for the Project or Projects for which such Series of Additional Bonds is being issued and for any other uncompleted Projects, and (II) an estimate of the cost of construction of such Projects;

(B) a written report of a Consulting Engineer setting forth for each Fiscal Year from the then current Fiscal Year through the later of (I) the first Fiscal Year commencing at least five years after the date of original issuance of such additional Series, or (II) the first Fiscal Year commencing at least three years after the Date of Completion projected by the Consulting Engineer in the certificate described in subparagraph (A) above, estimates of Revenues, Operation and Maintenance Expenses and Net Revenues; and

(C) a certificate of the Authority (I) setting forth (a) the estimates of Revenues, Operation and Maintenance Expenses and Net Revenues Available for Debt Service, as set forth in the written report of a Consulting Engineer described in subparagraph (B) above, for each of the Fiscal Years covered by such report, and (b) the Aggregate Annual Debt Service and Capitalized Interest for each of such Fiscal Years, including Annual Debt Service

and Capitalized Interest on all future Series of Bonds, if any, which such Certificate of the Authority shall estimate (based on the estimate of the Consulting Engineer of the cost of construction of such Projects) are required to complete payment of the cost of construction of such Projects, and (II) demonstrating that for each of such Fiscal Years (a) Revenues are projected to be at least equal to the aggregate amount of all transfers required to be made pursuant to the provisions of the Indenture described above in subparagraphs (A) through (F) under “—Allocation of Revenues,” and, to the extent applicable, otherwise required to provide for the payment of all obligations of the Authority to be paid from Revenues, and (b) Net Revenues Available for Debt Service are projected to be at least equal to 1.25 times Aggregate Annual Debt Service.

(D) In lieu of the certificates and reports required by the Indenture summarized in subparagraphs (A), (B) and (C) above, the Authority may deliver to the Trustee a Certificate of the Authority to the effect that for the last complete Fiscal Year or any period of 12 consecutive calendar months out of the 18 calendar months next preceding the original issuance of such Series of Additional Bonds, Net Revenues Available for Debt Service for such Fiscal Year or 12-month period equaled at least 1.25 times the Maximum Annual Debt Service on all Bonds then Outstanding plus the Series of Additional Bonds being issued.

In addition, a Series of Additional Bonds may be issued for the sole purpose of depositing in a Construction Account the amounts necessary to complete any one or more Projects without filing with the Trustee the certificates and reports required by the Indenture as summarized in subparagraphs (B) and (C) above, if such certificates and reports demonstrating compliance with such provisions of the Indenture were filed in connection with the issuance of the prior Series of Bonds for each of such Projects and if the principal amount of such Series of Additional Bonds to be issued for completion purposes does not exceed 10% of the principal amount of Bonds previously issued for and allocable to such Projects.

The Indenture also provides that if and to the extent that a Series of Additional Bonds is being issued for the purpose of refunding Bonds, the Authority is required to file with the Trustee either (i) a certificate of the Authority that Aggregate Annual Debt Service for each Fiscal Year thereafter will be less than or equal to Aggregate Annual Debt Service for each such Fiscal Year in the absence of such refunding, or (ii) the certificates and reports described in subparagraphs (A) (if any one or more of the Projects for which the Bonds being refunded is not then completed), (B) and (C) above; provided that in lieu of the certificates and reports described in subparagraphs (A), (B) and (C), the Authority may deliver to the Trustee the certificate described in subparagraph (D) above.

See “APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—ISSUANCE OF BONDS; ISSUANCE OF A SERIES OF BONDS; PARITY PAYMENT AGREEMENTS—Issuance of Additional Series of Bonds” and “—Proceedings for the Issuance of a Series of Bonds; Parity Payment Agreements.”

Additional Parity Payment Agreements

Pursuant to the Indenture, the Authority may enter into Parity Payment Agreements payable from Revenues on a parity with the Bonds and other Parity Payment Agreements and secured by a lien upon and pledge of Revenues equal to the lien and pledge securing the Bonds and other Parity Payment Agreements, but only upon compliance by the Authority with the provisions of the Indenture and any applicable provisions of any Supplemental Indenture, and subject to the certain conditions precedent to the entering into by the Authority of any Parity Payment Agreement.

The Authority is not currently a party to any Parity Payment Agreements, nor does the Authority have any current plans to enter into any Parity Payment Agreements. See “APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—ISSUANCE OF BONDS; ISSUANCE OF A SERIES OF BONDS; PARITY PAYMENT AGREEMENTS—Issuance of Additional Series of Bonds; Additional Parity Payment Agreements; Other Payment Agreements.”

Other Payment Agreements

Pursuant to the Indenture, the Authority may enter into Payment Agreements payable from Revenues after and subordinate to the payment from Revenues of payments with respect to the Bonds and Parity Payment

Agreements, but only upon compliance by the Authority with any applicable provisions of any Supplemental Indenture.

The Authority is not currently a party to any other Payment Agreements, nor does the Authority have any current plans to enter into any other Payment Agreements. See “APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—ISSUANCE OF BONDS; ISSUANCE OF A SERIES OF BONDS; PARITY PAYMENT AGREEMENTS—Issuance of Additional Series of Bonds; Additional Parity Payment Agreements; Other Payment Agreements.”

DEBT SERVICE SCHEDULE

Fiscal Year Ending September 30,	2018 Series A Bonds Principal	2018 Series A Bonds Interest⁽¹⁾	2018 Series B Bonds Principal	2018 Series B Bonds Interest⁽¹⁾	2018 Series C Bonds Principal	2018 Series C Bonds Interest⁽¹⁾	Total Debt Service
2019							
2020							
2021							
2022							
2023							
2024							
2025							
2026							
2027							
2028							
2029							
2030							
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2040							
2041							
2042							
2043							
2044							
2045							
2046							
2047							
2048							

⁽¹⁾ Net of capitalized interest.

⁽²⁾ Total may not add due to rounding.

THE TERRITORY OF GUAM

Guam is the westernmost territory of the United States (the “U.S.”) and the largest and southernmost island of the Marianas archipelago. Guam is approximately 3,300 nautical miles (“nm”) west-southwest of Hawaii, 1,360 nm south-southeast of Tokyo, 1,495 nm south-southeast of Taiwan, and 1,385 nm east of Manila, Philippines. The island is 32 miles long, varying from four to 12 miles wide, with a total land area of approximately 212 square miles. Guam links the U.S., the expanding Far East market and the rest of the world with the Western Pacific islands, including: (i) the Commonwealth of the Northern Mariana Islands (“CNMI”) of Saipan, Tinian, Rota and other smaller islands, (ii) the Republic of Palau, (iii) the Federated States of Micronesia (“FSM”) islands of Yap, Chuuk, Pohnpei and Kosrae, and (iv) the Republic of the Marshall (“RMI”) islands including Majuro, Ebeye and Kwajalein.

Guam was ceded to the U.S. in 1898 under the Treaty of Paris and has remained under U.S. administration, except for two and a half years of Japanese occupation during World War II. U.S. forces recaptured Guam in 1944 and re-established a naval government. In 1950, the U.S. Congress passed the Organic Act of Guam (the “**Organic Act**”) granting the indigenous Chamorro people U.S. citizenship and establishing a civilian government.

Guam is an unincorporated and organized territory of the U.S., governed by the Government. The U.S. Census Bureau (the “**USCB**”) estimates that Guam’s population in 2018 is approximately 167,800.

Tourism is the largest contributor to Guam’s economy, representing approximately 30% of Guam’s gross domestic product. Guam is a preferred tourist destination for the East Asian market due to its (i) warm climate, tropical beaches and natural beauty; (ii) short-haul, economical flights to and from major Asian cities; (iii) water sports (e.g., diving and snorkeling); (iv) duty-free luxury shopping; and (v) distinctive local Chamorro culture and food. In Fiscal Year 2017, Guam had approximately 1.56 million visitors (approximately nine times its population), an increase of more than 3% from Fiscal Year 2016. In the past five years, tourism in Guam has grown by a compound annual growth rate (“**CAGR**”) of 3.7%.

In addition, Guam has a large U.S. military presence, which includes U.S. Navy and U.S. Air Force bases that occupy nearly 30% of Guam’s land mass. In the late 1980s, Guam’s military population (including dependents) exceeded 20,000, representing approximately 18% of Guam’s total population. Guam’s military population (including dependents) was 12,800 in 2017, representing approximately 7.9% of Guam’s total population.

Since 2006, the U.S. Department of Defense (the “**DoD**”) has been planning to realign its military forces in the Asia-Pacific region, which involves the relocation of a sizeable contingent of marines to Guam primarily from facilities in Okinawa, Japan. Pursuant to the Final Supplemental Environmental Impact Statement, Guam and Commonwealth of the Northern Mariana Islands Military Relocation (2012 Roadmap Adjustments), dated July 2015 (the “**2015 EIS**”), approximately 5,000 marines and 1,300 dependents from Okinawa, Japan and other locations are expected to be relocated to Guam by Fiscal Year 2026, with the first 2,500 marines moving to a new Marine Corps base to be built on existing federal land in Finegayan, Dededo (near Andersen Air Force Base in the northern part of Guam) in Fiscal Year 2022. The realignment, or military build-up, on Guam is expected to result in an approximately 5% increase to Guam’s current population. Pursuant to the National Defense Authorization Act for Fiscal Year 2015, the total amount made available for military construction for implementation of the Record of Decision for the relocation of Marine Corps forces to Guam associated with the 2015 EIS may not exceed \$8.7 billion. As of March 7, 2018, the Naval Facilities Engineering Command reported that over \$1.0 billion of the maximum \$8.7 billion in construction projects had been completed, awarded or under construction with an additional \$2.6 billion of construction contracts in solicitation. The National Defense Authorization Act for Fiscal Year 2018 (the “**2018 NDAA**”), which was signed into law on December 12, 2017, allows up to 4,000 nonimmigrant workers to be admitted to Guam and the CNMI per fiscal year to perform service or labor on Guam or the CNMI that is directly connected to, or associated with, the military realignment occurring on Guam and the CNMI.

For more information about Guam, including tourism and military presence and buildup on Guam, see “APPENDIX A—CONSULTING ENGINEER’S REPORT” and “APPENDIX B—GENERAL INFORMATION REGARDING THE TERRITORY OF GUAM.”

THE PORT AUTHORITY OF GUAM

General

The Authority operates the Jose D. Leon Guerrero Commercial Port, the only commercial seaport in the Territory of Guam and the primary seaport in Micronesia. The Port is the largest U.S. deep water port in the region and currently handles approximately two million tons of cargo a year. As the only commercial port on Guam, Guam's citizens are dependent on the Port to provide essential goods – most notably, food products, building materials and fuel. In addition, the U.S. military relies on the Port to handle nearly all the military cargo and equipment moving in and out of Guam. Currently, more than 90% of the total volume of goods and supplies needed to support activities on Guam flow through the Port. Approximately 30% of total cargo moving through the Port is military related. Guam's only alternative to the Port for delivery of essential goods is air freight which is significantly more expensive.

Total operating revenues for the Port were approximately \$50.9 million for Fiscal Year 2017 and approximately \$52.2 million for Fiscal Year 2016. Total operating expenses (excluding depreciation) for the Port were approximately \$40.5 million for Fiscal Year 2017 and approximately \$39.2 million for Fiscal Year 2016.

History and Governance

The Authority was established as a public corporation and an autonomous agency of the Government by Public Law 13-87 in October 1975. The Authority is mandated to provide for the needs of ocean commerce, shipping, recreational, and commercial/boating, as well as navigation of the Territory of Guam. The Authority is also responsible for the development and operation of recreational boating facilities, public harbors, small boat marinas and other associated marine facilities in Guam.

The Legislature is responsible for approving and adopting the Port's master plans, authorizing the transfer of property under the Authority's jurisdiction, and authorizing the issuance of debt. In addition, the Authority's long-term leases (i.e., leases with a term of five or more years) requires approval by the Legislature.

The Authority has no taxing powers. The Authority's debts and operating costs are paid from tariff charges, fees and other revenues generated from the Port's facilities. The Authority has historically raised capital funds for construction projects by pledging its own credit through various debt instruments.

In 2009, pursuant to Public Law 30-52 (“**PL 30-52**”), the Authority was placed under the regulatory oversight of the PUC. PL 30-52 gave the PUC the sole authority to approve the Authority's tariff adjustments. See also “THE PORT—Tariff Rate Setting.” The PUC is an independent regulatory commission created in 1984. The PUC also serves as the regulatory rate governing body for other Guam public service agencies including the Guam Waterworks Authority (“**GWA**”), Guam Power Authority (“**GPA**”) and Guam Solid Waste Authority (“**GSWA**”). The PUC is comprised of seven commissioners who serve staggered six-year terms. Each PUC commissioner is appointed by the Governor of Guam (the “**Governor**”) and confirmed by the Legislature.

GEDA serves as the central financial manager and consultant for the Government and those agencies or instrumentalities of the Government requiring financial guidance and assistance.

Management Personnel

Board of Directors. The Authority Board is comprised of five members that are appointed to staggered three-year terms by the Governor with the advice and consent of the Guam Legislature. The Board has decision-making authority over the Authority's management strategy, direction, development, construction, and operations, including the operating and financial budgets. Below is a list of the current members of the Board, their titles, and their terms.

Board of Directors of the Port Authority of Guam

Name	Title	Term Commenced	Term Ends
Francisco G. Santos	Chairman	July 1, 2016	June 30, 2019
Oscar A. Calvo	Vice Chairman	January 1, 2016	December 31, 2018
Melanie R. Mendiola	Secretary	July 1, 2017	June 30, 2020
Maria D.R. Taitano	Member	July 1, 2017	June 30, 2020
Nathan T. Taimanglo	Member	July 1, 2016	June 30, 2019

Port Management.

Joanne M.S. Brown, General Manager. Ms. Brown has served as General Manager of the Authority since December 2012. Prior to joining the Authority, Ms. Brown served as a staff assistant to Governor Joseph F. Ada and Executive Director of the Guam War Reparations Commission in 1989. In 1991, she became the Deputy administrator for the Guam Environmental Protection Agency and also served as an adjunct instructor of political science at the University of Guam. From 1994-2006, Ms. Brown served six consecutive terms in the Legislature, including as Vice Speaker in the 28th Legislature and Chairperson for the Committee on Natural Resources, with oversight for the Guam Waterworks Authority and Guam Power Authority. During this time, she also served as a two-term President for the Association of Pacific Island Legislatures. After completing her legislative term in 2006, Ms. Brown served as Assistant Director for Soil and Water Conservation with the University of Guam College of Natural and Applied Sciences. From 2011-2012, Ms. Brown served as the Director for the Department of Public Works. Ms. Brown has a B.S. degree in political science from the University of Guam and an M.A. degree in political science from the University of Hawaii at Manoa.

Felix R. Pangelinan, Deputy General Manager, Operations. Mr. Pangelinan serves as Deputy General Manager, Operations (“DGMO”), and has been with the Authority since 1983. As DGMO, Mr. Pangelinan oversees five divisions – Strategic Planning, Control and Compliance, Operations, Maintenance and Engineering. He has over 34 years of experience in the maritime industry, having served in various capacities since 1982, including as an on-call Equipment Operator II, armed security guard, Safety Technician II, Marine Traffic Controller at the Harbor Master’s Division, Assistant Harbor Master and Harbor Master.

Felixberto Alfred Duenas, Deputy General Manager, Finance. Mr. Duenas serves as Deputy General Manager, Finance (“DGMF”), and has been with the Authority since July 2015. As DGMF, Mr. Duenas oversees seven divisions – Finance, Human Resources, Procurement, Commercial, Marketing, General Administration and Information Technology. He has 25 years of experience in the Legislature and the executive branch and over eight years of experience in the private sector with financial institutions. Mr. Duenas served in various capacities in the 17th Legislature through the 26th Legislature, including as Chief of Staff, Assistant Chief Fiscal Officer, Budget Analyst and Staff Assistant. During his time with the Legislature, Mr. Duenas was instrumental in developing policies, procedures and resolutions relating to land zoning, school districting programs, the retirement plan system, the Chamorro land trust program, establishment of the ancestral land commission, the Y-Tano-ta land use plan, open skies policies, visa waivers for travelers, and reorganization of the Veterans’ Affairs. Mr. Duenas has a B.S. degree in business administration from the University of Maryland.

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Employees and Labor Relations

The Port is organized into three operating divisions and two maintenance divisions, both of which are assisted by 12 support divisions, as shown below:

Operating Divisions

1. Stevedoring
2. Terminal
3. Transportation

Maintenance Divisions

1. Equipment Maintenance
2. Facility Maintenance

Support Divisions

1. Harbor Master
2. Port Police
3. Occupational Health and Safety
4. Strategic Planning
5. Marketing
6. Human Resources
7. Finance
8. Commercial
9. Engineering
10. Procurement and Supply
11. Information Technology
12. General Administration

As of March 2018, the Authority employed 356 employees, including 121 employees in management and administration; 47 employees for equipment maintenance; 61 employees for transportation services; 59 employees for stevedoring services; 29 employees for facility maintenance; and 39 employees for terminal service. Over the past five years, the Authority has employed an average of 353 employees per year. A majority of the Authority's employees are classified as employees of the Government and within the Guam Civil Service System. Certain management positions and key skilled supervisory personnel hold unclassified positions. Of the Authority's 356 employees, 83 are represented by Guam Federation of Teachers although no collective bargaining agreement is currently in place.

THE PORT

General

The Port consists of a cargo terminal, industrial terminal, six cargo handling berths, cargo handling equipment and numerous support buildings and facilities. The Port offers deep draft waterfront access and landside support services for container, breakbulk, fishing, recreational, industrial and cruise operations. In addition, the Authority operates Agat Marina ("**Agat Marina**") in the southern municipality of Agat and the Gregorio D. Perez Marina ("**Gregorio D. Perez Marina**") in Hagåtña.

The Port's facilities are located on Cabras Island along the northern shoreline of the Outer Apra Harbor (the "**Outer Apra Harbor**"), a natural lagoon enclosed by a submerged coral bank and a barrier reef enhanced with a breakwater. In addition, the main navigation channel, anchorages, marinas, other marine industrial facilities and the Navy's Delta, Echo and Kilo wharves are located in the Outer Apra Harbor.

Port Access

From Tamuning and other urban areas, landside access to the Port is via Route 1 (also known as Marine Corps Drive), which runs southwest towards Piti. From Piti, landside access to the Port is via Route 11, which runs west past GPA's Cabras Power Plant, through vacant lands set aside for the Cabras Island Industrial Park, and runs north of the Port and dead ends on Glass Breakwater (which forms the northern breakwater for Outer Apra Harbor). The northern barrier along Route 11 consists of a low seawall and armored breakwater protection facing the Philippine Sea. Furthermore, landside access to the Navy's facilities is via Route 18, which is south of the Port and runs parallel to Route 11.

Overview of Port Facilities

Most of the Authority's facilities are located on Cabras Island in Piti, Guam. Management and operation of the majority of the Port facilities on Cabras Island was transferred from the Government to the Authority between 1979 and 1985. GEDA assigned the management of the remaining 32 acres in the Marine Industrial Terminal to the

Authority in 1988. Currently Cabras Island is under the administrative jurisdiction of the Authority, with the exception of the GPA's Cabras Power Plant and its surrounding area.

Overall, the Authority has jurisdiction over more than 1,000 acres of land in Guam, including 515 acres of submerged land parcels. The Authority's marine and landside assets on Cabras Island include the Harbor of Refuge, Aqua World Marina, Piti Channel, Cargo Terminal (as further described herein), Marine Industrial Terminal, Hotel Wharf, Dog Pier and Family Beach. Furthermore, the Port oversees a 42-acre industrial park (the "**Cabras Island Industrial Park**"), which is located on Cabras Island, east of the Cargo Terminal. The Cabras Island Industrial Park is mostly undeveloped but certain areas are used for recycling and staging. See also "APPENDIX A—CONSULTING ENGINEER'S REPORT—AUTHORITY FACILITIES AND OPERATIONS—Assets."

Cargo Terminal

The Port's 89-acre cargo terminal (the "**Cargo Terminal**") consists of: (i) four berths numbered F-3 to F-6 (each, a "**Berth**"); (ii) a 40.1-acre storage yard for containers; (iii) nine acres of open storage for breakbulk, vehicles and general cargo; (iv) 9.9 acres of buildings, structures, parking and circulation; (v) three acres of gates and terminal access roadways and (vi) 24 acres of undeveloped land reserved for expansion. Container cargo is stored behind Berths F-5 and F-6 on the east side of the Cargo terminal and breakbulk cargo is stored behind Berth F-4 on the west side of the Cargo Terminal. The Cargo Terminal has an annual throughput capacity of approximately 200,000 to 215,000 containers, based on the capacity of the terminal's berths and/or storage yard.

Berths F-3. Berth F-3 is located in the southwest corner of the Cargo Terminal and has a water depth of approximately 28-30 feet. Long-liner fishing boats with lengths ranging from 75-100 feet and drafts of 15-20 feet currently call at Berth F-3. Long-liner fisherman bring in tuna to Berth F-3 for processing at their leased facilities in Warehouse 1 (which is located within the breakbulk area of the Cargo Terminal).

Berths F-4 to F-6. Berths F-4 to F-6 are located along a 1,950 foot marginal wharf with a water depth of approximately 37 feet. Container ships and general cargo vessels currently call at Berths F-4 to F-6. Tugs also currently call at the eastern end of Berth F-6. Each of the three berths can service container ships with a maximum beam of 107 feet. The largest vessels currently calling at the Port are container ships with a capacity of 2,600 Twenty-foot Equivalent Units ("**TEU**") and an average design draft of approximately 34 feet. Berths F-4 to F-6 have an estimated throughput capacity of 215,000 containers per year.

Storage Yard. Empty and transshipment containers are stacked in the storage yard on the ground. Refrigerated containers are placed on chassis and stored in a designated refrigerated area in the storage area that includes 112 stalls equipped with power receptacles. All other loaded containers are either placed on chassis or on the ground in the storage yard. The Authority currently has approximately 1,601 TEU Total Ground Slot ("**TGS**") for wheeled chassis and 1,356 TEU TGS for grounded containers. As currently configured, the storage yard has an estimated throughput capacity of approximately 180,000 containers per year. However, the storage yard's capacity could be increased to more than 205,000 containers per year by converting wheeled slots into grounded slots, which allows for containers to be stacked up to four high.

Cargo Terminal Equipment

STS Gantry Cranes. At the Port, ship-to-shore ("**STS**") gantry cranes are used to lift containers to and from a ship. After a container is lifted from a ship, it is placed on a chassis (which is moved by off-road terminal yard tractors) and can either be stored on the chassis in a designated area or be removed from the chassis and stacked on the ground using the Authority's top-lifter (a type of container handling vehicle). On occasion, visiting vessels may use their own gear to load and offload cargo. Roll on/roll off ("**Ro/Ro**") vessels typically load and offload cargo via vessel ramps down to the wharf surface.

The Authority owns three rail-mounted STS gantry cranes that are currently operational. While the Port's three STS gantry cranes can handle forecasted container volumes, including forecasted container volumes associated with the military buildup, there is limited capacity to accommodate additional breakbulk volumes, as well as minimal flexibility for downtime to address crane breakdowns and crane maintenance. The Authority plans to acquire a new

STS gantry crane in the next few years to be used for transferring breakbulk cargo that is not Ro/Ro and does not require ship's gear for handling. The additional STS gantry crane will also allow for additional weekly preventive maintenance rotations for the entire STS gantry crane fleet.

In addition to the three operational STS gantry cranes, the Authority owns two STS gantry cranes that were decommissioned in 2012 and 2015. These STS gantry cranes are parked at the west end of the container wharf and are being used for spare parts to service the three operational STS gantry cranes. The Authority plans to disassemble and remove both STS gantry cranes in 2019.

See also “—Major Sources of Operating Revenue—*Crane Surcharges*,” “CERTAIN INVESTOR CONSIDERATIONS—Possible Failure of STS Gantry Cranes,” and “APPENDIX A—CONSULTING ENGINEER'S REPORT—AUTHORITY FACILITIES AND OPERATIONS—Cargo Terminal—Terminal Equipment.”

Other Equipment. Grounded storage containers are handled by eight top lifters, 32 yard tractors and 15 forklifts owned by the Authority. Yard tractors and carrier-supplied chassis handle wheeled cargo. Forklifts varying in capacity from five to 20 tons handle palletized or unitized cargo. Front loaders, owned and operated by carriers, handle aggregates (i.e., coarse particulate material used in construction).

Buildings and Structures

The Cargo Terminal includes administrative facilities encompassing approximately 44,000 square feet (“sf”); 27,600 sf of maintenance and repair facilities; a warehouse and container freight station providing approximately 79,000 sf of enclosed floor space; and terminal gates and circulation areas. For a list of major Port buildings and structures that were built and put into service in the late 1960s, see “APPENDIX A—CONSULTING ENGINEER'S REPORT—AUTHORITY FACILITIES AND OPERATIONS—Cargo Terminal—Buildings and Structures.”

Marine Industrial Terminal

The Port's 50-acre marine industrial terminal (the “**Marine Industrial Terminal**”) consists of oil tanks and pipelines, warehouses, a cement silo, and light-gauge sheds. The Marine Industrial Terminal has been leased to private companies since 1969.

Liquid bulk fuels from Mobil Oil Guam Inc. and Tristar Agility are delivered to their respective storage tanks from the adjacent Golf Pier marine transfer facility (“**Golf Pier**”) or from Berth F-1 via terminal pipelines within the South Pacific Petroleum Corporation (“**SPPC**”) facility. Liquid bulk fuels are typically delivered to the Marine Industrial Terminal via tanker vessel every 20 days. Such products are then distributed by pipeline from their storage tanks to their loading racks where such products are loaded into tank trucks and distributed to service stations and commercial and government accounts throughout Guam. A portion of such liquid bulk fuels is reloaded at Golf Pier to coastal tankers for distribution to the FSM and CNMI.

Marinas

The Authority operates two public marinas, Agat Marina in the southern municipality of Agat and the Gregorio D. Perez Marina in Hagåtña. The Agat Marina is used as a berthing area for approximately 114 boats, has a boat ramp and fuel and loading dock that is leased to various tenants. The Gregorio D. Perez Marina is used for floating slips and moorage for approximately 46 vessels and is leased to various tenants. The Authority receives minimal revenue from approximately 130 tenants at its marinas. **Public Marina Revenues are not pledged in the payment of the 2018 Bonds.** See also “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Carriers and Routes

To service Guam, ocean carriers deploy cargo ships between the U.S. or Asia markets and Guam and subsequently use smaller feeder vessels to transport transshipment cargo between Guam and the Micronesian islands.

Vessels on these trade routes often carry a combination of containers, breakbulk and Ro/Ro cargo to reduce service costs and meet the market demands of the various islands.

Jones Act

Carriers with service routes between the U.S. mainland and Guam are exempt from certain U.S. requirements contained in the Merchant Marine Act of 1920 (Public Law 66-261) (the “**Jones Act**”). Pursuant to Section 27 of the Jones Act, all goods transported by water between U.S. ports must be carried on U.S.-flag ships, built in U.S. shipyards, owned by U.S. citizens and crewed by U.S. citizens and U.S. permanent residents. Carriers serving Guam are not required to use U.S.-built ships, which effectively permits the deployment of foreign-owned, foreign-built U.S. flag vessels in the domestic Guam trade. However, such vessels must be U.S. flagged, which means that the ship must employ a U.S. crew and are subject to inspection by the U.S. Coast Guard. The foreign ownership of a U.S. flag vessel must be arranged through a special purpose U.S. trust. Because foreign-flagged vessels are restricted from transferring cargo directly to and from U.S. ports on the mainland and Guam or Hawaii, such vessels must call at a foreign port in between calls to U.S. mainland ports and Guam or Hawaii.

Carriers

The following table sets forth the Port’s U.S. and foreign carriers, each of which are further described below.

Table 1
Ocean Carriers with Services to Guam

Company	Type of Carrier	Type of Cargo	# of Containers in Fiscal Year 2017⁽¹⁾	% of Total Cargo in Fiscal Year 2017	# Years Serving Port
Matson, Inc.	Jones Act Carrier ⁽²⁾	Local Containers	61,751	64.3%	22
American President Lines	U.S. Flag Carrier ⁽³⁾	Local Containers	10,226	10.6%	28 ⁽⁴⁾
Waterman Steamship Corp.	U.S. Flag Carrier ⁽³⁾	Local Ro/Ro	1,644	1.7%	4
Seabridge	U.S. Flag Carrier ⁽³⁾	Transshipment Military	99	0.1%	29
Marianas Express Lines Limited	Foreign Flag Carrier	Local Containers	13,121	13.7%	21
Kyowa Shipping Co.	Foreign Flag Carrier	Transshipment and Local Containers, Breakbulk and Ro/Ro	9,204	9.6%	44
Total:			96,045	100.0%	

⁽¹⁾ Does not include 10 containers transferred by a foreign carrier’s intermittent service during Fiscal Year 2017.

⁽²⁾ U.S.-built, flagged, owned and crewed.

⁽³⁾ Foreign-built.

⁽⁴⁾ From 1980-2006 and from 2016-2018.

Source: *The Consulting Engineer’s Report*.

U.S. Carriers. The U.S. flag carriers serving Guam include Matson, Inc. (“**Matson**”), American President Lines (“**APL**”), Seabridge (“**Seabridge**”), and Waterman Steamship Corp. (“**Waterman**”). Matson is the only U.S. carrier that is fully compliant with the requirements of the Jones Act. The other three U.S. flag carriers operate foreign-built, U.S. flagged vessels. See “—*Jones Act.*”

Matson, Inc. Matson, Inc., formerly Matson Navigation Company, is a containership operator that serves the Guam, Hawaii and China trades. Matson entered the Guam trade in 1996 by joining an alliance with APL. At such time, APL was being sold into foreign ownership and Matson purchased and operated APL’s Jones Act eligible containerships on their U.S. flag services.

Matson is currently the primary carrier at the Port and carried approximately 64.3% of all cargo coming in and out of the Port in Fiscal Year 2017. Matson’s service to Guam currently employs five

containerships, each with a capacity of approximately 2,500 TEUs, in a string that carries cargo from the U.S. Pacific Coast to Honolulu to Guam. The vessels continue on to China, where they are loaded with cargo to be shipped back to the U.S. mainland and discharged in Long Beach, California. Cargo on Matson vessels that is destined for the FSM and RMI islands is transshipped via Kyowa's vessels from the Port. In addition, Matson provides a weekly transshipment service between Guam and Rota and Saipan, CNMI. In the past three years, Matson's service has transferred an average of approximately 140 containers per vessel call.

American President Lines. APL provided service to Guam from 1980 until 1996 when it sold its service to Matson. After the sale, APL continued to operate the vessels for 10 years until 2006 as part of an alliance with Matson ("**APL-Matson**"). In 1997, APL was acquired by Neptune Orient Line Limited ("**NOL**"), a Singapore-based company, and became a foreign shipping company. The APL-Matson alliance terminated in 2006 when APL departed from the Guam trade. However, in 2016, APL re-entered the Guam trade with a bi-weekly service and in 2017, APL began offering weekly service.

In 2016, French shipping line CMA CGM S.A. acquired NOL. APL currently owns and operates (through special U.S. trusts) several foreign-built U.S. flag containerships that allows them to compete for U.S. government (the "**Federal Government**") preference cargo, especially military preference cargoes, and be eligible for federal Maritime Security Program operating subsidies. APL is the only domestic carrier with direct service from Asia to Guam.

APL carried approximately 10.6% of all cargo coming in and out of the Port in Fiscal Year 2017. APL's service to Guam currently employs two containerships – the APL Saipan and the APL Guam – with capacities of approximately 1,600 TEUs and 1,100 TEUs respectively. Each containership runs a weekly service that links Guam and Saipan to the U.S. mainland via APL's global network in Busan and Yokohama. Cargo to and from Guam joins APL's Eagle Express service or the Pacific Northwest service in either Busan or Yokohama.

Waterman Steamship Corp. Waterman Steamship Corp., the principal subsidiary of International Shipholding Corp., is an independent owner and operator of U.S.-flag Ro/Ro vessels. Waterman operates a U.S.-flag car/truck carrier vessel service among Guam, Japan, Korea and U.S. West Coast ports. Waterman calls at the Port every 45-50 days and transfers an average of approximately 400 automobiles per vessel call to Guam. Waterman carried approximately 1.7% of all cargo coming in and out of the Port in Fiscal Year 2017.

Seabridge. Seabridge Inc., a subsidiary of Cabras Marine Corporation, currently operates a feeder service that carries cargo to and from Guam and the CNMI. The U.S. flag tug and barge operation provides inter-island services for Matson, Saipan Shipping (a sister company of Kyowa) and other carriers. Seabridge, which has been calling at the Port since 1989, previously operated a foreign flag service between Guam and the CNMI until new regulations affecting CNMI immigration made it difficult to sustain the service. Currently, Seabridge's service primarily carries U.S. military cargo to Kwajalein via transshipment at Guam. The biweekly/monthly service transfers an average of about 10 containers per vessel call between Guam and CNMI. Seabridge carried approximately 0.1% of all cargo coming in and out of the Port in Fiscal Year 2017.

Foreign Carriers. The foreign flag carriers serving Guam include Marianas Express Lines Limited ("**MELL**") and Kyowa Shipping Co. ("**Kyowa**"). In addition to serving the Guam-Asia market, these foreign flag carriers provide the majority of transshipment services to other non-U.S. territory ports in the region (e.g., the Port of Saipan, the Port of Majuro and other smaller ports).

Marianas Express Lines Limited. MELL, founded in 1997, started with two vessels plying the route of Hong Kong, Guam, Saipan and Taiwan. MELL is currently a container liner operator headquartered in Singapore that carries containers between China, Southeast Asia, Japan, Australia and islands in the Pacific. MELL became a subsidiary of Pacific International Lines Ltd. in March 2015.

MELL provides weekly service to Guam, deploying four vessels that each have an average capacity of 1,200 TEUs. The rotation for the Micronesia Express Service ("**MXS**") is Hong Kong, Nansha, Kaohsiung, Naha, Guam, Saipan, Yap, Koror, Cebu, General Santos, and Davao.

MELL carried approximately 13.7% of all cargo coming in and out of the Port in Fiscal Year 2017. The MXS service transfers an average of approximately 290 containers per vessel call in Guam. Cargo on MELL vessels that is destined for the FSM and RMI islands is transshipped via Kyowa's vessels from the Port.

Kyowa Shipping Co.. Founded in 1974, Kyowa Shipping Co. is a Japan-based regional carrier that provides regular liner shipping service from Japan, Australia, Asia, and Southeast Asia to Guam and Saipan. Kyowa has become one of the top marine transport companies for the islands of the Pacific Ocean. Kyowa carried approximately 9.6% of all cargo coming in and out of the Port in Fiscal Year 2017.

Kyowa has a space chartering and connecting carrier agreement with Matson for service between Asia and Guam/Micronesia and with MELL for service to the FSM and RMI islands. Cargo originating from the U.S. mainland and Hawaii is sent to Guam on a weekly Matson vessel. Similarly, cargo from Asian ports on MELL's service rotation are sent to Guam on a weekly basis. Once in Guam, the cargo is transferred to one of Kyowa's multipurpose vessels that carry containers, breakbulk and Ro/Ro cargo and is transshipped to various destination ports in Micronesia.

In addition, Kyowa has a space chartering agreement with NYK-Hinode, a Japan-based cargo vessel operator, to deliver approximately 150-230 personal vehicles per month to Guam.

Cargo from Korea and Japan is also picked up directly by Kyowa vessels as part of its rotation and remains on these vessels until offloaded at its destination port in Micronesia. Kyowa's weekly transshipment service transfers an average of approximately 220 containers per vessel call between Guam and FSM and RMI islands.

Competition

Competitive Advantages of the Port. The Port has several competitive advantages over other ports in its region, including, among others, the Port of Saipan (the "**Port of Saipan**") and the Port of Majuro (the "**Port of Majuro**"), each of which is further described below.

Guam is the largest island in the Mariana Islands archipelago and a strategic U.S. military hub. As a result, the Port receives the benefits associated with catering to both a larger civilian and military population and has the resources to maintain and expand its facilities. Ports with large local markets, such as the Port, are more likely than ports with small local markets to serve as a carrier's transshipment hub. Carriers are able to center their larger vessels on these ports and use smaller containerships or barges for transshipment routes, which is a cost-effective way of providing faster and more frequent services to multiple smaller ports in the region on short and/or low container volume rotations. Smaller ports typically have shallow berths and require smaller "geared" ships (e.g., vessels with cranes installed) and barges to service these ports.

Further, the Port is the only port in the Micronesia region that has the infrastructure (i.e., berth depth, storage yard) and equipment (i.e. gantry cranes, container handlers) required to service container vessels with a capacity of up to 4,000 TEUs. Other ports in the region, including the Port of Saipan and the Port of Majuro, have limited infrastructure, cranes and container handling equipment. In Fiscal Year 2015, a portion of the Port's transshipment cargo shifted to the Port of Saipan and the Port of Majuro. Both ports, which service relatively small populations, are heavily reliant on transshipment cargo and thus attempt to competitively price their cargo handling services. However, such transshipment cargo returned to the Port in Fiscal Year 2016, due, in part, to the Port's infrastructure.

Port of Saipan. Saipan is the second largest island in the Mariana Islands archipelago (after Guam) with an estimated USCB 2010 population of 48,220. The Port of Saipan is operated by the Commonwealth Ports Authority. The Port of Saipan has a 22-acre container yard and 2,600 linear feet of berthing space. The channel, turning basin and berthing areas have a depth of approximately 40 feet. The Port of Saipan does not currently have any fixed, mobile or floating cranes. The Port of Saipan primarily serves small fishing vessels

and cargo vessels that deliver imported food, household items, construction equipment and materials, fuel products and copra and coconut oil.

Port of Majuro. Majuro is the capital and the largest city of the RMI with an estimated 2011 population of 27,797. The Port of Majuro is operated by the Marshall Islands Port Authority. The Port of Majuro has a 6.3-acre container yard and 1,464 linear feet of berthing space. The channel, turning basin and berthing areas have a depth of approximately 50 feet. The Port of Majuro does not currently have any fixed, mobile or floating cranes. The Port of Majuro primarily serves small fishing vessels and cargo vessels that deliver imported food, household items, construction equipment and materials, fuel products and copra and coconut oil.

Cargo Activity at the Port

The Port handled approximately 1.2 million revenue tons in Fiscal Year 2017, comprised of approximately 1.0 million tons in containerized cargo and 170,000 tons in breakbulk cargo. Liquid bulk cargo does not contribute to the Port's annual tonnage total because the facilities are leased to private companies. In the past five years, revenues from containerized cargo, breakbulk cargo and liquid bulk cargo have averaged approximately 95.7% of the Port's revenues (including some minimal overlap with revenues from leases), while approximately 5.7% of the Port's revenues is attributable to leases (including some minimal overlap with revenues from liquid bulk) (see "—Leases"). Each type of cargo and its relative importance to the Port is further described below.

Containerized Cargo

Containerized cargo is cargo that is predominately packed into standard dry box shipping containers but also includes cargo that is packed into other containers (e.g., refrigerated units, flat racks, open tops, auto-carriers, etc.). Although such containers can be found in several different sizes, the most common containers are 20-foot containers (also known as a TEU) and 40-foot containers (or two TEUs). On average, approximately 90% of the Authority's total cargo tonnage is containerized cargo. Total containerized cargo handled by the Port has increased in the past 15 years, specifically growing at a CAGR of 1.4% from Fiscal Years 2013 to 2017. From Fiscal Years 2013 to 2017, containerized cargo revenue averaged approximately \$37.5 million per year, or approximately 78.5% of the Authority's annual revenues. In Fiscal Year 2017, the Port handled 96,055 total containers, which represents less than half of the container terminal's current throughput capacity of 200,000 to 215,000 containers.

Local Containers. Local containers are containers that contain goods specifically for the Guam economy. In the past five years, local containers have averaged approximately 70% of total containerized cargo (accounting for approximately 89% of total containerized cargo revenue at the Port), specifically growing at a CAGR of -0.4% from Fiscal Years 2013 to 2017. The rate of growth or decline in local container volume is based on Guam's population, major civilian and military projects and the tourism industry.

Transshipment Containers. Transshipment containers are containers that are received from a vessel for the purpose of passing or conveying to another vessel at the Port. In the past five years, transshipment containers have averaged approximately 30% of total containerized cargo (accounting for approximately 11% of total containerized cargo revenue at the Port), specifically growing at a CAGR of 5.7% from Fiscal Years 2013 to 2017. The rate of growth or decline in transshipment container volumes is more volatile than for local container volumes as movement of this type of cargo through Guam is discretionary.

The Port had a low of 19,445 transshipment containers in Fiscal Year 2014 and a high of 35,288 transshipment containers in Fiscal Year 2016. The decline in containers transshipped from the Port in Fiscal Year 2014 was due, in part, from MELL shifting a portion of its transshipment container volume from Guam to Majuro and Saipan. MELL's revision of its rotation and transshipment strategy and APL's arrival in Fiscal Year 2016 have resulted in the return to historical levels of transshipment container volumes to the Port.

Breakbulk Cargo

Breakbulk cargo is cargo that cannot fit into containers and commodities that are more economically transported as breakbulk cargo. The majority of the Port's breakbulk cargo is Ro/Ro cargo, which is cargo that is rolled on/off a vessel, including automobiles (e.g., cars, trucks, trailers, railroad cars) and unitized and breakbulk on wheeled equipment. Other breakbulk cargo includes steel plates, cement, rebar and pipes, sacks of aggregate, and asphalt. Apart from automobiles, most inbound breakbulk cargo is destined for the construction industry. Outbound breakbulk cargo consists primarily of automobiles, construction materials (moving on transshipment routes), as well as fish, scrap metal and a variety of other miscellaneous cargo. On average, approximately 10% of the Authority's total cargo tonnage is breakbulk cargo. Total breakbulk cargo handled by the Port has generally increased in the past 15 years, specifically growing at a CAGR of 0.9% from Fiscal Years 2013 to 2017. From Fiscal Years 2013 to 2017, breakbulk cargo revenue averaged approximately \$3 million each year, or approximately 6.3% of the Authority's revenues.

Breakbulk cargo volumes have ranged from a low of 164,650 tons in Fiscal Year 2013 to a high of 233,541 tons in Fiscal Year 2015. The significant increase in breakbulk cargo volumes in Fiscal Year 2015 was due, in part, to an influx of automobiles from the opening of a new car dealership on Guam.

Breakbulk transshipment cargo volumes make up less than 5% of total breakbulk volumes on average and have ranged from a low of 4,785 tons in Fiscal Year 2014 to a high of 10,769 tons in Fiscal Year 2015.

Liquid Bulk

Liquid bulk consists of refined petroleum products, including motor gasoline, aviation gasoline, jet fuel, automotive diesel oil and liquefied petroleum gas. Such products are delivered by ship to the Authority's leased facilities for storage in onshore non-production storage and distribution facilities in the Marine Industrial Terminal.

Liquid bulk volumes handled by tenants at the Port have generally decreased in the past 15 years. While liquid bulk export volumes transshipped to other islands in the region decreased from Fiscal Year 2006 to 2010 (due in part to the recession and the increase in fuel prices during such period), it has remained relatively steady since Fiscal Year 2010 at approximately 10.0% of total volume. From 2013 to 2017, liquid bulk volumes have increased by a CAGR of 4.1%. The Authority's total revenues in the past five years related to liquid bulk has averaged approximately \$4 million each year, or approximately 10.9% of the Authority's revenues (including some minimal overlap with revenues from leases).

Major Sources of Operating Revenue

The Port's revenues are generated primarily from various fees and tariffs charged to shippers for using the Port's facilities and movement of cargo through the Port. Port operating revenues can be summarized into the following categories: (i) cargo throughput charges, including FMF charges; (ii) equipment and space rental charges; (iii) crane surcharges; (iv) wharfage charges; and (v) other operating income, each of which is further described below. The following table sets forth the Authority's operating revenues for Fiscal Year 2017. In addition, the Port receives funds from various grants from the Federal Government.

Approximately \$42.8 million, or 84%, of the Authority's Fiscal Year 2017 operating revenues are pledged to the payment of the 2018 Bonds and the remaining \$8.1 million, or 16%, of the Authority's Fiscal Year 2017 operating revenues are not pledged to the payment of the 2018 Bonds due primarily to their dedicated or restricted uses. Pledged revenues include (i) cargo throughput charges, not including FMF charges; (ii) equipment and space rentals except for Public Marina Revenues; (iii) wharfage charges; and (iv) other operating income. Revenues that are not pledged to the payment of the 2018 Bonds include (x) revenues from FMF charges, which generated approximately \$1.5 million in Fiscal Year 2017; (y) revenues from Crane Surcharge fees levied on carriers using the Authority's STS gantry cranes, which generated approximately \$6.1 million in Fiscal Year 2017; and (z) Public Marina Revenues, which were approximately \$0.2 million in Fiscal Year 2017.

Current legislation requires the Authority to transfer, together with GPA and A.B. Won Pat International Airport Authority Guam (the “**Airport**”), an aggregate sum of \$3.5 million from operating surpluses generated by such agencies to the General Fund of the Government by the end of each fiscal year. Other than in 1997, when the Authority transferred \$3.5 million to the General Fund of the Government, the Authority has never transferred money to the General Fund pursuant to such legislation. In addition, the Authority believes it is entitled to a continuing offset against any amounts that might be due pursuant to such legislation. To the best of the Authority’s knowledge, GPA and the Airport have never transferred money to the General Fund pursuant to such legislation. For more information, see “CERTAIN INVESTOR CONSIDERATIONS—Legislation Regarding Transfers to Guam General Fund.”

The following table sets forth the Authority’s operating revenues for Fiscal Year 2017. See also “FINANCES—Historical Operating Results.”

Table 2
Fiscal Year 2017 Operating Revenues

Revenue Category	Fiscal Year 2017 Operating Revenues (in \$000s)	% of Total Fiscal Year 2017 Operating Revenues
Cargo Throughput Charges ⁽¹⁾⁽²⁾⁽³⁾	\$30,715	60.35%
Equipment and Space Rental Charges ⁽³⁾	8,769	17.23
Crane Surcharges ⁽²⁾	6,092	11.97
Wharfage Charges ⁽²⁾⁽³⁾	4,986	9.80
Other Operating Income ⁽³⁾	332	0.65
Total Operating Revenues	\$50,894	100.0%

⁽¹⁾ Includes approximately \$1.5 million of revenues from FMF charges in Fiscal Year 2017. See “—*Facility Maintenance Fee*” below.

⁽²⁾ Represents charges that are directly tied to the movement of freight, totaling \$41.8 million of operating revenues in Fiscal Year 2017. See “—*Tariff Rate Setting*.”

⁽³⁾ Represents operating revenues pledged to the payment of the 2018 Bonds except for FMF charges (which are part of “Cargo Throughput Charges”) and Public Marina Revenues (which are part of “Equipment and Space Rental Charges”).

Cargo Throughput Charges

Cargo throughput revenues consist of revenues related to the movement of freight. Total cargo throughput revenues for the Port were approximately \$30.7 million in Fiscal Year 2017, including approximately \$1.5 million of revenues from FMF charges, and approximately \$31.9 million in Fiscal Year 2016, including approximately \$1.75 million of revenues from FMF charges. FMF charges are further described below.

Facility Maintenance Fee

In 2010, the PUC approved the Authority’s implementation of a facility maintenance fee. The FMF is assessed for use of Port facilities to provide funding for the maintenance, replacement and repair of the Authority’s cargo assets. The FMF is assessed to Port users utilizing the Port’s facilities in the receipt and delivery of cargo to and from a vessel and/or in connection with the receipt, delivery, checking, care, custody and control of cargo as required in the transfer of cargo.

Pursuant to the Terminal Tariff #1, the FMF is \$33.64 per full inbound/outbound containers, \$33.64 per full inbound transshipped containers and \$1.82 per revenue ton for breakbulk cargo. Similar to other Port tariffs, the FMF has no sunset provision and can be adjusted in the future subject to approval of a tariff petition by the PUC. See “—*Tariff Rate Setting*.” The Authority allocates 100% of annual FMF revenues to Sustainability Plan (as defined herein) projects within the Cargo Terminal. See “PORT IMPROVEMENT PROGRAM.”

FMF revenues are deposited into a special fund (the “**FMF Fund**”). From Fiscal Years 2013 to 2017, the Authority received an average of approximately \$1.55 million per year in FMF revenues. Total FMF revenues for the

Port were approximately \$1.5 million in Fiscal Year 2017 and approximately \$1.75 million in Fiscal Year 2016. As of March 2018, the balance in the FMF Fund is approximately \$3.4 million. **FMF revenues are excluded from the definition of “Revenues” under the Indenture and are therefore not pledged to the payment of the 2018 Bonds.** See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Equipment and Space Rental Charges. Equipment and space rental charges include facility usage charges for the Marine Industrial Terminal, Agat Marina, Gregorio D. Perez Marina and Harbor of Refuge, as well as demurrage charges on cargo stored on the terminal. Total equipment and space rental revenues, which are comprised of revenues from liquid bulk (see “—Cargo Activity at the Port—*Liquid Bulk*”) and leases (see “—Leases”), as well as Public Marina Revenues (see “—Marinas”), totaled approximately \$8.8 million in Fiscal Year 2017 and approximately \$8.8 million in Fiscal Year 2016.

Crane Surcharges

In 2012, the PUC approved the Authority’s implementation of the Crane Surcharge. The Authority currently assesses a Crane Surcharge of \$125 for each loaded import and export container and \$5 per ton (up to a maximum of \$105 per lift) for breakbulk cargo using the Port’s STS gantry cranes. Crane Surcharges apply only to the first carrier using the STS Cranes for transshipment loaded containers. Similar to other Port tariffs, the Crane Surcharge has no sunset provision and can be adjusted in the future subject to approval by the PUC. **Crane Surcharge revenues are excluded from the definition of “Revenues” under the Indenture and are therefore not pledged to the payment of the 2018 Bonds. However, in certain circumstances, Crane Surcharge revenues are taken into account in the calculation of “Net Revenues Available for Debt Service” as defined in the Indenture. The Authority makes no assurance regarding the availability of any Crane Surcharge revenues to pay debt service in respect of the 2018 Bonds.** See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of Revenues; —Rate Covenant.”

From Fiscal Years 2013 to 2017, the Authority received an average of approximately \$6.0 million per year in Crane Surcharge revenues. Total Crane Surcharge revenues for the Port were approximately \$6.1 million in Fiscal Year 2017 and approximately \$6.3 million in Fiscal Year 2016. The following table sets forth the allocation of Crane Surcharge revenues from Fiscal Year 2017.

Table 3
Allocation of Crane Surcharge Revenues for Fiscal Year 2017

	Containers	Split of Proceeds	Crane Operating Account⁽¹⁾	Crane Reserve Account
Baseline	First 44,400 loaded containers ⁽²⁾ and 42,010 breakbulk tons	Percentage: Revenues:	90.5% \$5,212,845	9.5% \$547,205
Above Baseline	All additional loaded containers ⁽²⁾ and breakbulk tons	Percentage: Revenues:	0% \$0	100% \$548,525

⁽¹⁾ The Authority currently tracks such Crane Surcharge revenues and intends to create a separate crane operating account for such funds upon the issuance of the 2018 Bonds.

⁽²⁾ First lift only for transshipment containers.

Source: *The Consulting Engineer’s Report.*

Crane Operating Account. As depicted in the table above, 90.5% of Crane Surcharge revenues for the first 44,400 loaded containers and the first 42,010 tons of breakbulk, equal to \$5,212,845 if the baseline volumes are met, are used for annual crane operation and maintenance, repair and any annual debt service allocable to the cranes. The Authority currently tracks such Crane Surcharge revenues and intends to create a separate crane operating account (the “**CO Account**”) for such funds upon the issuance of the 2018 Bonds. Such revenues will be used to demolish two older, decommissioned cranes currently on the Cargo Terminal, as well as to demolish any future decommissioned cranes. As of March 2018, the Authority had approximately \$6.7 million of Crane Surcharge revenues that will be allocable to the CO Account when it is established. See also “THE PORT—Cargo Terminal Equipment—*STS Gantry*”

Cranes” and “APPENDIX A—CONSULTING ENGINEER’S REPORT—FINANCIAL POSITION OF THE AUTHORITY—Authority Operating Revenues—Crane Surcharge.”

Crane Reserve Account. As depicted in the table above, 9.5% of Crane Surcharge revenues for the first 44,400 loaded containers and the first 42,010 tons of breakbulk, equal to \$547,205 if the baseline volumes are met, are deposited into the Crane Reserve Account (the “**CR Account**”). All Crane Surcharge revenue generated from cargo in excess of these baseline volumes is also deposited into the CR Account. As of March 2018, the CR Account had a balance of approximately \$4.1 million.

Crane Surcharge revenues in the CR Account are restricted to funding future acquisition of cranes, any loan payment due to default on any past due crane loan liability or any extraordinary corrective maintenance events. The Authority plans to use Crane Surcharge revenues from the CR Account to acquire a new STS gantry crane in the next few years (procurement of the new STS gantry to be initiated in 2019 for commission in 2021) and to acquire new STS gantry cranes as the Port’s existing cranes reach their useful life. See “THE PORT—Cargo Terminal Equipment—*STS Gantry Cranes*.”

Wharfage Charges

A wharfage charge is a charge assessed against all cargo passing or conveyed over, onto or under any wharves or between vessels (to or from barge, lighter or water) when berthed at wharf or moored in any slip, channel, basin or canal or made fast to another vessel which is made fast to a wharf or moored in any slip, channel, basin or canal. Wharfage is solely the charge for the use of the wharf, slip, channel, basin and canal, and does not include charges for any other activity or service. Total wharfage revenues for the Port were approximately \$5.0 million in Fiscal Year 2017 and approximately \$4.9 million in Fiscal Year 2016.

Other Operating Income

Other operating income consist of revenues unrelated to the movement of freight, such as fees from day passes to access Family Beach adjacent to the Port. Total other operating income for the Port were approximately \$0.3 million in Fiscal Year 2017 and approximately \$0.3 million in Fiscal Year 2016.

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Major Companies Ranked by Revenues

The following table shows the top 10 major companies, ranked by their percent contribution to the Port's total revenues.

Table 4
Major Companies Ranked by Revenues for Fiscal Year 2017⁽¹⁾

Company	Fiscal Year 2017 Revenues (\$000s)	% of Total Fiscal Year 2017 Revenues	Company Role at Port
1. Matson	\$24,976	49.07%	Carrier
2. Consolidated Transportation Services	5,601	11.01	Agent and Tenant
3. APL	4,781	9.39	Carrier
4. Marianas Steamship Agencies	4,280	8.41	Agent and Tenant
5. Tristar Terminals Guam, Inc.	2,218	4.36	Fuel Pier Manager– Tenant
6. Ambyth Shipping & Trading Inc.	2,143	4.21	Agent and Tenant
7. Mobil Oil Guam, Inc.	1,461	2.87	Fuel Pier Manager – Tenant
8. Norton Lilly International	1,399	2.75	Agent and Tenant
9. Inchcape Shipping Services	415	0.81	Agent
10. South Pacific Petroleum Co.	357	0.70	User and Tenant
Total:	\$47,631	93.58%	

⁽¹⁾ Includes generators of the Crane Surcharge revenues and FMF revenues, which are not pledged to the payment of the 2018 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Source: *The Consulting Engineer's Report*.

Federal Government Grants

The Authority has secured more than \$25 million in federal grants over the past five years for Port improvement projects, including approximately \$11.4 million for 2018-2022 CIP projects, almost all of which was awarded in the last two years. The largest Federal Government grant that has been awarded to the Authority is \$10.0 million from the U.S. Department of Transportation's Transportation Investment Generating Economy Recovery (“**TIGER**”) program for the Hotel Wharf and Access Road Revitalization and Upgrades project. Receipt of the TIGER grant is conditioned upon the Authority contributing approximately \$13.8 million from proceeds of the 2018 Bonds to the Hotel Wharf and Access Road Revitalization and Upgrades project.

In addition, the Authority has applied for approximately \$4.2 million of additional Federal Government grants, including a grant for \$1.1 million from the U.S. Department of Homeland Security Federal Emergency Management Agency's (“**FEMA**”) Pre-Disaster Mitigation Grant Program, a grant for \$2.2 million from the U.S. Department of the Interior Office of Insular Affairs' Capital Improvement Grant Program, and a grant for \$0.9 million grant from the U.S. Department of the Interior Fish and Wildlife Service for additional 2018-2022 CIP projects. See also “PORT IMPROVEMENT PROGRAM—Capital Improvement Plan—*Funding for Fiscal Year 2018-2022 Capital Improvement Plan Projects—Federal Government Grants*.”

The Authority has also been awarded Federal Government grants from the U.S. Department of Homeland Security FEMA Port Security Grant Program (“**PSGP**”) and the U.S. Department of the Interior Fish and Wildlife Service for other 2018-2022 PIP projects.

Tariff Rate Setting

Public Law 30-52, signed into law on July 14, 2009, placed the Port under the oversight of the PUC. Pursuant to PL 30-52, the establishment or modification of rates and other charges for the Port requires the approval of the PUC through the tariff petition process, which includes the Authority submitting a tariff petition, allowing 30 days for public review and comment, and the PUC's independent consultant reviewing the petition to ensure that proposed rates are just and reasonable.

Prior to oversight by the PUC, the Authority had limited success between 1993 and 2009 in receiving both public and legislative approval of its proposed tariff rate adjustments. Since then, the PUC has accepted all of the Authority's petitions to increase its rates, most recently approving a tariff petition in April 2017 for Fiscal Years 2017 through 2021 (the "**2017-2021 Tariff Adjustment Plan**"). The 2017-2021 Tariff Adjustment Plan included (i) a 7% increase in rates effective June 2017; (ii) a 7% increase in rates effective January 2018; (iii) a 1% percent increase in rates per year in October 2018, October 2019 and October 2020. The 2017-2021 Tariff Adjustment Plan does not include increases in Crane Surcharges. The Authority anticipates that it will submit another tariff petition in Fiscal Year 2021 to set tariffs for Fiscal Years 2022 through 2026 (the "**2022-2026 Tariff Adjustment Plan**"). The 2022-2026 Tariff Adjustment Plan will not include increases in Crane Surcharges.

For multi-year rate plans such as the 2017-2021 Tariff Adjustment Plan, the Authority provides an annual status report to the PUC, from which the proposed annual rate increase is reviewed and potentially adjusted to ensure that the charges are sufficient to fund Port operations and meet the Authority's obligations. Over 250 different rates are included in the Port of Guam Naming Rates, Charges, Rules and Regulations, Terminal Tariff #1, effective January 1, 2018 (the "**Terminal Tariff #1**"). For a comprehensive list of the Port's tariffs, see "APPENDIX A—CONSULTING ENGINEER'S REPORT—Appendix 1: Port 2018 Tariff."

Leases

As of March 2018, the Authority maintains leases and agreements with more than 70 tenants within the Port's facilities. Many companies hold multiple leases for different facilities within the Port. In addition, the Authority also receives revenue from more than 130 tenants at its marinas. More than 40% of the Port's major tenants have maintained leases with the Authority for at least a decade. Guam law requires legislative approval for any lease agreement that exceeds a five-year term. In addition, PUC approval is required for any lease agreement with the Authority in which the revenue of the total term exceeds \$1.0 million. As of March 2018, the Port's facilities are nearing 100% occupancy. From Fiscal Years 2013 to 2017, revenue from leases averaged approximately \$2.7 million per year, or approximately 5.7% of the Authority's annual revenues, including some minimal overlap with revenues from liquid bulk revenues.

The following table sets forth tenants at the Port whose total lease area exceeds 100,000 square feet in Fiscal Year 2017. See also "—Major Sources of Operating Revenue—*Equipment and Space Rental Charges*."

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Table 5
Major Lease Agreements in Fiscal Year 2017

Tenant	Facility	Area (sf)	Current Lease Year and Term	Years as a Port Tenant
Tristar Agility	Marine Industrial Terminal; GEDA Main Pipeline	349,955	11/06/2006 (Monthly)	11
	F-1 Fingertip	78,651	04/01/2014 (3-5 years)	3
South Pacific Petroleum Corp.	Marine Industrial Terminal; Lots 2 and 3A, Associated Pipeline	405,718	11/30/2000 (20 years)	46
Mobil Oil Guam Inc.	Marine Industrial Terminal, Lots 1 and 3B	248,873	03/20/2010 (10 years)	47
		82,799	03/04/2011 (10 years)	46
Cabras Marine Corporation	Marine Industrial Terminal, Lot 5	223,898	08/01/2011 (10 years)	28
	Office Space; Administration Building	1,580	5/01/2009 (Monthly)	35

Source: The Consulting Engineer's Report.

For a complete list of the Authority's tenants whose total lease area exceeds 1,000 sf in Fiscal Year 2017, see "APPENDIX A—CONSULTING ENGINEER'S REPORT—AUTHORITY FACILITIES AND OPERATIONS—Tenants."

From Fiscal Year 2013 to 2017, the Authority's total revenues from leases has averaged approximately \$2.7 million per year, or approximately 5.7% of total revenues.

See also "LITIGATION—Guam YTK Corporation Litigation."

Port Security Measures

From 2007 to 2017, the Authority received over \$11.8 million from the U.S. Department of Homeland Security FEMA's PSGP to enhance the Port's security, including the construction of a Port Command Center that houses a state-of-the-art Command and Control Integration System that includes a comprehensive closed-circuit television, access control and communication capabilities. In addition, the Authority has installed high powered container yard lighting, constructed an expanded concrete masonry unit wall along Route 11, and completed the removal and installation of a hardened Port-wide perimeter security fence to provide optimal physical security and protection to Port personnel, operations and assets. Furthermore, the Authority's Port Police Division uses a mobile container and vehicle x-ray van, four high-performance Ford Interceptor sport-utility vehicles, and two high-speed watercrafts to improve the Port's cargo monitoring and detection capabilities and speed up its response and recovery efforts on both land and sea. The Authority also developed a comprehensive training program that is completely federally funded through the U.S. Department of Homeland Security Training Consortium and U.S. Department of Homeland Security FEMA's Emergency Management Institute to enhance its personnel's emergency management and response capability.

Terminal Utilities

Guam Waterworks Authority (“**GWA**”) supplies water through a main supply line to the Port. A dedicated fire suppression water tank with a capacity of 274,000 gallons and three fire service pumps was installed at the Port in 2015. The Port’s sewage system is a gravity-fall system to a GWA sewage pump station. The Port’s storm drainage system is also a gravity-fall system to a GWA sewage pump station. Guam Power Authority (“**GPA**”) supplies power via its 13.8kv underground lines along Route 11 outside of the Cargo Terminal. Five electrical load centers constructed as hardened structures inside the Cargo Terminal store the Authority’s seven prime power generators that were installed in 2016. Telephone, internet and radio communications are also available at the Cargo Terminal.

FINANCES

Historical Operating Results

The following table sets forth the Authority’s historical operating results for Fiscal Years 2013 through 2017.

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Table 6
Historical Operating Results
Fiscal Years 2013 through 2017
(\$000s)

	2013	2014	2015	2016	2017
Operating Revenues:					
Cargo throughput charges ⁽¹⁾	\$25,606	\$26,408	\$28,463	\$31,921	\$30,715
Equipment and space rental ⁽²⁾	7,503	7,709	8,563	8,753	8,769
Crane surcharges	4,118	5,670	5,846	6,285	6,092
Wharfage charges	4,185	4,493	4,617	4,930	4,986
Other operating income ⁽³⁾	498	672	1,182	319	332
Total Operating Revenues	\$41,910	\$44,952	\$48,671	\$52,208	\$50,894
Operating Expenses:					
General and Administrative ⁽⁴⁾	\$16,444	\$15,383	\$14,566	\$18,532	\$18,517
Stevedoring services	3,558	3,320	3,024	3,934	3,993
Terminal Services	1,997	1,918	1,810	2,676	2,809
Equipment maintenance	7,651	5,396	4,903	5,447	5,640
Transportation services	4,780	4,395	3,980	4,984	5,550
Facility maintenance ⁽⁵⁾	1,496	1,513	1,294	1,665	1,987
COLA/Supplemental Annuities ⁽⁶⁾	2,156	2,320	2,790	--	--
Retiree Healthcare Benefits ⁽⁶⁾	--	--	--	1,938	1,971
Total Operating Expenses (Excluding Depreciation)	\$38,082	\$34,245	\$32,367	\$39,176	\$40,467
Net Operating Revenues	\$3,828	\$10,707	\$16,304	\$13,032	\$10,427
LESS: Crane surcharges	(4,118)	(5,670)	(5,846)	(6,285)	(6,092)
LESS: Marina Revenues	(247)	(214)	(213)	(260)	(270)
PLUS: Crane O&M Paid from Crane surcharges ⁽⁷⁾⁽⁸⁾	3,898	3,898	3,898	3,898	3,898
PLUS: Non-cash accounting adjustments ⁽⁹⁾	--	--	--	1,320	2,020
Net Revenues Available for Debt Service ⁽¹⁰⁾	\$3,361	\$8,721	\$14,143	\$11,705	\$9,983
Subordinate Debt Service ⁽¹¹⁾					
2010 ANZ Equipment Loan	\$ 361	\$ 361	\$ 361	\$ 361	\$ 361
2012 ANZ Equipment Loan	913	1,217	1,217	1,217	1,217
2014 Bank of Guam SLE Loan	--	--	452	452	1,470
2015 USDA Loan	--	--	324	324	324
Total Subordinate Lien Debt Service	\$1,274	\$1,578	\$2,354	\$2,354	\$3,372

⁽¹⁾ FMF revenues are included in cargo throughput charges and totaled \$1.5 million in Fiscal Year 2017. Historical FMF revenues ranged from \$1.4 million in Fiscal Year 2013 to \$1.75 million in Fiscal Year 2016. FMF revenues are spent on designated projects approved by the Authority Board during its annual budget process. Expenditures on FMF-funded facility maintenance are shown below under Facility Maintenance.

⁽²⁾ Includes Marina revenues.

⁽³⁾ Other operating income includes Special Services, Harbor of Refuge, and Other Operating Income.

⁽⁴⁾ Includes Management and Administration, General Expenses, Insurance, and Utilities.

⁽⁵⁾ Facility Maintenance costs are fully covered by the FMF revenues, which are included under Cargo Throughput Charges. FMF revenues are spent on designated projects approved by the Authority Board, and may not be undertaken in the years the FMF fees were collected or may take multiple years to complete. Thus, FMF revenues and Facility Maintenance expenditures will not necessarily match in any given year.

⁽⁶⁾ Beginning in Fiscal Year 2016, the Authority re-categorized and re-allocated certain amounts paid to the Government related to retiree benefits to various other "Operating Expenses" categories pursuant to GASB 73. See "—Pension and Other Post-Retirement Benefit Plans—GASB 73."

⁽⁷⁾ Crane O&M costs are not reported directly in the Authority's audited financial statements; rather, these costs are incorporated into line items such as Equipment Maintenance.

⁽⁸⁾ Includes only 90.5% of the first 44,400 containers (and breakbulk) subject to the \$125 crane surcharge.

⁽⁹⁾ Reflects non-cash adjustments related to implementation of GASB 73 and deferred inflows and outflows of resources related to pension and other post-employment benefits. See "—Pension and Other Post-Retirement Benefit Plans—GASB 73."

⁽¹⁰⁾ Revenues available for debt service pursuant to the Indenture.

⁽¹¹⁾ Subordinate debt expected to be fully repaid in conjunction with the issuance of the 2018 Bonds.

Source: *The Consulting Engineer's Report*.

Historical Unaudited Operating Results

The following table sets forth the Authority's historical unaudited operating results through March 30 for Fiscal Years 2017 and 2018 and budgeted operating results through March 30 for Fiscal Year 2018.

Table 7
Historical Unaudited Operating Results through March 30
Fiscal Years 2017 and 2018
(\$000s)

	2017 (Unaudited through March 30)	2018 (Unaudited through March 30)	2018 (Budgeted through March 30)
Operating Revenues			
Cargo Throughput Revenues	\$10,021	\$11,302	\$11,176
Crane Surcharge	3,032	2,990	3,095
Wharfage	2,357	2,660	2,465
Direct Labor Billed	1,556	1,909	1,593
Transship Containers	1,664	1,595	1,247
Facility Maintenance Fee	729	920	741
Facilities Fees	3,607	4,409	3,713
Marina Revenues	128	125	132
All Other Revenues	1,221	1,357	1,232
Total Operating Revenues	\$24,314	\$27,267	\$25,394
Operating Expenses (Excluding Depreciation)			
Salaries & Wages	\$9,314	\$9,468	\$10,342
Retirement Benefits	2,481	2,570	2,669
Repairs And Maintenance	529	488	919
General Insurance	1,270	1,274	1,380
Utilities	728	880	948
Other General And Administrative	3,008	3,608	4,293
Total Operating Expenses	\$17,330	\$18,288	\$20,552
Other Income & Expense	\$1,845	\$1,933	\$1,037
Net Income Before Depreciation & Amortization	\$5,139	\$7,045	\$3,805
Depreciation & Amortization	2,863	3,115	2,650
Net Income After Depreciation & Amortization	\$2,276	\$3,931	\$1,155

Projected Operating Results

The Consulting Engineer has prepared a projection of operating results and debt service coverage for Fiscal Years 2018 through 2022 as set forth in the Consulting Engineer's Report included in this Official Statement as APPENDIX A. Table 8 sets forth the Authority's projected operating results and debt service coverage for Fiscal Years 2018 through 2022 without taking into account any increased cargo or associated revenue as a result of the military build-up. Table 9 provides the Authority's projected operating results and debt service coverage for Fiscal Years 2018 through 2022 taking into account information contained in the 2013 Master Plan (as defined herein) and in the 2015 EIS related to the military build-up and the associated \$8.7 billion of construction projects. The projected operating results in Table 8 and Table 9 have been prepared by the Consulting Engineer using the cash basis of accounting. The Consulting Engineer's Report includes a financial feasibility assessment of proposed capital investments.

WSP is not an Independent Registered Municipal Advisor registered with the Securities and Exchange Commission. Certain information with respect to the 2018 Bonds were provided to WSP by the Authority, the Underwriters, Bond Counsel and GEDA.

Projected Operating Results – Base Case. Forecasts of operating results presented in Table 8 are based upon the Consulting Engineer's forecast of cargo throughput increasing 1.1% per year from Fiscal Years 2018 through 2022 and the continued implementation of 1% per year tariff increases for Fiscal Years 2019-2021 (see "THE PORT—Tariff Rate Setting") (the "**Base Case**"). Forecasts of operating expenses presented in Table 8 are based upon the Authority's prior financial statements, with certain adjustments based on the Authority's intention to increase employee wage rates and assuming 3% annual inflation. The feasibility assessment further assumes that Crane Surcharge revenues will be adequate to fully fund the operation, maintenance and future replacement of the Authority's STS gantry cranes (see "THE PORT—Cargo Terminal Equipment—*STS Gantry Cranes*" and "—Major Sources of Operating Revenue—*Crane Surcharges*") or that the PUC will approve additional Crane Surcharge increases to ensure no pledged Revenues are used for such purposes if such Crane Surcharge revenues are insufficient. The results presented in Table 8 do not take into account any increased cargo or associated revenue as a result of the military build-up.

For purposes of calculating Net Revenues Available for Debt Service in Table 8, approximately \$6.4 million of Crane Surcharge revenues and approximately \$0.2 million of Public Marina Revenues has been excluded from net operating revenues each year. Furthermore, approximately \$3.9 million of Crane Surcharge revenues expected to be spent on crane maintenance and approximately \$1.2 million of Crane Surcharge revenues expected to be spent on debt service for the 2018 Bonds has been added back to net operating revenues for purposes of calculating Net Revenues Available for Debt Service in Table 8.

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Table 8
Projected Operating Results and Debt Service Coverage – Base Case
Fiscal Years 2018 through 2022
(\$000s)

	2018 (Est.)	2019	2020	2021	2022
Operating Revenues:					
Cargo throughput charges ⁽¹⁾	\$34,707	\$36,029	\$36,789	\$37,566	\$38,776
Equipment and space rental ⁽²⁾	9,673	10,032	10,239	10,450	10,779
Crane surcharges	6,254	6,323	6,392	6,462	6,534
Wharfage charges	5,721	5,939	6,065	6,193	6,392
Other operating income ⁽³⁾	323	335	342	350	361
Total Operating Revenues	\$56,678	\$58,658	\$59,827	\$61,020	\$62,842
Operating Expenses:					
General and Administrative ⁽⁴⁾	\$19,319	\$20,353	\$20,963	\$21,592	\$22,240
Stevedoring services	4,166	4,389	4,520	4,656	4,796
Terminal Services	2,930	3,087	3,180	3,275	3,373
Equipment maintenance	6,368	6,708	6,910	7,117	7,330
Transportation services	5,790	6,100	6,283	6,471	6,665
Facility maintenance ⁽⁵⁾	2,073	2,184	2,249	2,317	2,386
Total Operating Expenses	\$40,645	\$42,821	\$44,105	\$45,428	\$46,791
Other Income (Interest Earnings)	\$116	\$68	\$78	\$91	\$99
Net Operating Revenues	\$16,149	\$15,905	\$15,800	\$15,683	\$16,150
LESS: Crane surcharges	(6,254)	(6,323)	(6,392)	(6,462)	(6,534)
LESS: Marina Revenues	(241)	(241)	(241)	(241)	(241)
PLUS: Crane O&M Paid from Crane surcharges ⁽⁶⁾⁽⁷⁾	3,898	3,919	3,918	3,918	3,918
PLUS: Crane surcharge used for debt service	1,196	1,196	1,197	1,197	1,197
Net Revenues Available for Debt Service ⁽⁸⁾	\$14,748	\$14,457	\$14,282	\$14,095	\$14,491
Senior Lien Debt Service					
2018 Bonds ⁽⁹⁾	--	\$1,883	\$6,787	\$6,776	\$6,776
Total Senior Lien Debt Service	--	\$1,883	\$6,787	\$6,776	\$6,776
Indenture Debt Service Coverage	--	7.68x	2.10x	2.08x	2.14x
Subordinate Debt Service ⁽¹⁰⁾					
2010 ANZ Equipment Loan	\$ 361	--	--	--	--
2012 ANZ Equipment Loan	1,217	--	--	--	--
2014 Bank of Guam SLE Loan	1,470	--	--	--	--
2015 USDA Loan	324	--	--	--	--
Total Subordinate Lien Debt Service	\$3,372	--	--	--	--
Total Revenues Available After Debt Service	\$12,777	\$14,022	\$9,013	\$8,907	\$9,374

⁽¹⁾ FMF revenues are included in cargo throughput charges and totaled \$1.5 million in Fiscal Year 2017. Historical FMF revenues ranged from \$1.4 million in Fiscal Year 2013 to \$1.75 million in Fiscal Year 2016. FMF revenues are spent on designated projects approved by the Authority Board during its annual budget process. Expenditures on FMF-funded facility maintenance are shown below under Facility Maintenance.

⁽²⁾ Includes Marina revenues.

⁽³⁾ Other operating income includes Special Services, Harbor of Refuge, and Other Operating Income.

⁽⁴⁾ Includes Management and Administration, General Expenses, Insurance, and Utilities.

⁽⁵⁾ Facility Maintenance costs are fully covered by the FMF revenues, which are included under Cargo Throughput Charges. FMF revenues are spent on designated projects approved by the Authority Board, and may not be undertaken in the years the FMF fees were collected or may take multiple years to complete. Thus, FMF revenues and Facility Maintenance expenditures will not necessarily match in any given year.

⁽⁶⁾ Crane O&M costs are not reported directly in the Authority's audited financial statements; rather, these costs are incorporated into line items such as Equipment Maintenance.

- (7) Includes only 90.5% of the first 44,400 containers (and breakbulk) subject to the \$125 crane surcharge.
- (8) Revenues available for debt service pursuant to the Indenture.
- (9) Debt service on the 2018 Bonds is assumed to begin in Fiscal Year 2019.
- (10) Subordinate debt expected to be fully repaid in conjunction with the issuance of the 2018 Bonds.

Source: The Consulting Engineer's Report.

Projected Operating Results – Military Build-Up Case. Forecasts of operating results presented in Table 9 are based upon the Consulting Engineer's forecast of cargo throughput taking into account information contained in the 2013 Master Plan and in the 2015 EIS related to the military build-up and the associated \$8.7 billion of construction projects (the "**Military Build-Up Case**"). The feasibility assessment includes estimates of additional construction and military supplies converted into approximate containers, breakbulk and liquid bulk tonnage. Under the Military Build-up Case, forecasted operating revenues are an average of 23.4% higher than the Base Case through Fiscal Year 2022. Forecasts of operating expenses presented in Table 9 are based upon the Authority's prior financial statements, with certain adjustments based on the Authority's intention to increase employee wage rates and assuming a 3% annual inflation. The Consulting Engineer's forecast states that because the Authority's operating expenditures are not tied to throughputs and the Authority has sufficient capacity to handle increased operations as a result of the military build-up, the feasibility assessment assumes no growth in operating expenditures compared to the Base Case. The feasibility assessment further assumes that Crane Surcharge revenues will be adequate to fully fund the operation, maintenance and future replacement of the Authority's STS gantry cranes (see "THE PORT—Cargo Terminal Equipment—STS Gantry Cranes" and "—Major Sources of Operating Revenue—Crane Surcharges") or that the PUC will approve additional Crane Surcharge increases to ensure no pledged Revenues are used for such purposes if such Crane Surcharge revenues are insufficient.

For purposes of calculating Net Revenues Available for Debt Service in Table 9, approximately \$6.4 million of Crane Surcharge revenues and approximately \$0.2 million of Public Marina Revenues has been excluded from net operating revenues each year. Furthermore, approximately \$3.9 million of Crane Surcharge revenues expected to be spent on crane maintenance and approximately \$1.2 million of Crane Surcharge revenues expected to be spent on debt service for the 2018 Bonds has been added back to net operating revenues for purposes of calculating Net Revenues Available for Debt Service in Table 9.

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Table 9
Projected Operating Results and Debt Service Coverage – Military Build-Up Case
Fiscal Years 2018 through 2022
(\$000s)

	2018 (Est.)	2019	2020	2021	2022
Operating Revenues:					
Cargo throughput charges ⁽¹⁾	\$37,756	\$43,228	\$45,880	\$49,384	\$51,412
Equipment and space rental ⁽²⁾	10,494	11,972	12,688	13,633	14,183
Crane surcharges	6,813	7,607	7,998	8,530	8,698
Wharfage charges	6,214	7,102	7,532	8,101	8,432
Other operating income ⁽³⁾	351	402	426	459	477
Total Operating Revenues	\$61,628	\$70,310	\$74,524	\$80,106	\$83,203
Operating Expenses:					
General and Administrative ⁽⁴⁾	\$19,319	\$20,353	\$20,963	\$21,592	\$22,240
Stevedoring services	4,166	4,389	4,520	4,656	4,796
Terminal Services	2,930	3,087	3,180	3,275	3,373
Equipment maintenance	6,368	6,708	6,910	7,117	7,330
Transportation services	5,790	6,100	6,283	6,471	6,665
Facility maintenance ⁽⁵⁾	2,073	2,184	2,249	2,317	2,386
Total Operating Expenses	\$40,645	\$42,821	\$44,105	\$45,428	\$46,791
Other Income (Interest Earnings)	\$121	\$80	\$107	\$140	\$170
Net Operating Revenues	\$21,104	\$27,570	\$30,526	\$34,818	\$36,582
LESS: Crane surcharges	(6,813)	(7,607)	(7,998)	(8,530)	(8,698)
LESS: Marina Revenues	(241)	(241)	(241)	(241)	(241)
PLUS: Crane O&M Paid from Crane surcharges ⁽⁶⁾⁽⁷⁾	3,903	3,924	3,924	3,924	3,924
PLUS: Crane surcharge used for debt service	1,196	1,196	1,197	1,197	1,197
Net Revenues Available for Debt Service ⁽⁸⁾	\$19,151	\$24,843	\$27,407	\$31,168	\$32,763
Senior Lien Debt Service					
2018 Bonds ⁽⁹⁾	--	\$1,883	\$6,787	\$6,776	\$6,776
Total Senior Lien Debt Service	--	\$1,883	\$6,787	\$6,776	\$6,776
Indenture Debt Service Coverage	--	13.19x	4.04x	4.60x	4.84x
Subordinate Debt Service ⁽¹⁰⁾					
2010 ANZ Equipment Loan	\$ 361	--	--	--	--
2012 ANZ Equipment Loan	1,217	--	--	--	--
2014 Bank of Guam SLE Loan	1,470	--	--	--	--
2015 USDA Loan	324	--	--	--	--
Total Subordinate Lien Debt Service	\$3,372	--	--	--	--
Total Revenues Available After Debt Service	\$17,733	\$25,687	\$23,739	\$28,042	\$29,806

⁽¹⁾ FMF revenues are included in cargo throughput charges and totaled \$1.5 million in Fiscal Year 2017. Historical FMF revenues ranged from \$1.4 million in Fiscal Year 2013 to \$1.75 million in Fiscal Year 2016. FMF revenues are spent on designated projects approved by the Authority Board during its annual budget process. Expenditures on FMF-funded facility maintenance are shown below under Facility Maintenance.

⁽²⁾ Includes Marina revenues.

⁽³⁾ Other operating income includes Special Services, Harbor of Refuge, and Other Operating Income.

⁽⁴⁾ Includes Management and Administration, General Expenses, Insurance, and Utilities.

⁽⁵⁾ Facility Maintenance costs are fully covered by the FMF revenues, which are included under Cargo Throughput Charges. FMF revenues are spent on designated projects approved by the Authority Board, and may not be undertaken in the years the FMF fees were collected or may take multiple years to complete. Thus, FMF revenues and Facility Maintenance expenditures will not necessarily match in any given year.

⁽⁶⁾ Crane O&M costs are not reported directly in the Authority's audited financial statements; rather, these costs are incorporated into line items such as Equipment Maintenance.

- (7) Includes only 90.5% of the first 44,400 containers (and breakbulk) subject to the \$125 crane surcharge.
- (8) Revenues available for debt service pursuant to the Indenture.
- (9) Debt service on the 2018 Bonds is assumed to begin in Fiscal Year 2019.
- (10) Subordinate debt expected to be fully repaid in conjunction with the issuance of the 2018 Bonds.

Source: The Consulting Engineer's Report.

Investments

Investment of Moneys in Funds. Pursuant to the Indenture, moneys in the Construction Accounts, the Rebate Fund, the Debt Service Fund and the Bond Reserve Fund will be invested solely in Investment Securities to maximize investment income, with proper regard for the preservation of principal, pursuant to a Request of the Authority as to such investment. In addition, moneys in the Revenue Fund, the Operation and Maintenance Fund, the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Reserve Fund and the Capital Improvement Fund may be invested in any investment designated by Request of the Authority. Notwithstanding any other provision of the Indenture, moneys in the Revenue Fund and the Bond Reserve Fund will be invested only in Investment Securities having at least the second highest rating category from the Rating Agency.

Financial Policy

The Authority Board adopted a Working Capital Reserve for O&M policy (the “**Working Capital Reserve for O&M Policy**”) on April 19, 2018. The purpose of the Working Capital Reserve for O&M Policy is to provide a source of cash or funding source (i) to satisfy known operational and maintenance contingencies where the specific timing and amount is uncertain; (ii) to address unforeseen operational and maintenance contingencies which were not anticipated or planned at the time of approval of the annual budget; (iii) to provide liquidity in the event of a short-term disruption to the Authority’s revenue or expenditure cycle; (iv) to document the determination and mechanism for establishing, funding and maintaining the reserve account (the “**Working Capital Reserve Account**”); and (v) to establish the timeframe for accumulating the optimum level of the Working Capital Reserve Account.

The Working Capital Reserve Account will be established within the Capital Improvement Fund established under the Indenture. Pursuant to the Working Capital Reserve for O&M Policy, the Working Capital Reserve Account requirement is equal to 180 days of operational and maintenance costs of the current fiscal year (the “**Working Capital Reserve Account Requirement**”), which as of June 1, 2018, is estimated to be approximately \$21.1 million. Upon the issuance of the 2018 Bonds, the Authority intends to deposit \$3.0 million into the Working Capital Reserve Account from unrestricted cash balances and intends to fund the remainder of the Working Capital Reserve Account Requirement over a five-year period. Amounts on deposit in the Working Capital Reserve Account may be used to pay for operational and maintenance expenses if current cash flow is insufficient for such purpose.

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.

Risk Management and Insurance

The Authority has a ports and terminals liability insurance policy with a coverage limit of \$50 million and a \$15,000 deductible and a commercial property insurance policy with a coverage limit of \$55 million and a \$1 million deductible for each and every loss with respect to earthquake shock, flood and windstorm and a \$50,000 deductible for each and every loss with respect to all other perils. The Authority’s commercial property insurance policy provides coverage of up to \$55 million, which extends to the Authority’s property, plant and equipment. The Authority’s commercial property insurance policy also provides coverage of up to \$55 million for business interruption, not to exceed 24 calendar months. The Authority also has commercial insurance coverage for directors’ and officers’ liability, employee dishonesty and forgery, money and securities loss, automobile injury, fire damage and workers’ compensation. The Authority has incurred no casualty losses in excess of insurance coverage in the last five years.

Audits and Compliance Reviews

Audits and compliance reviews arise at all times in the normal course of the Port's activities. Such audits and compliance reviews may relate to any activity at the Port, and may be conducted by persons within or outside the Port, including but not limited to the Port's internal Office of Public Accountability and a variety of other federal and local governmental agencies. The Port is not aware of any pending audit or review concerning matters that are likely to have a material adverse effect on its ability to pay the principal of, premium, if any, and interest on the 2018 Bonds when due.

Environmental Compliance

The Port is required to comply with numerous federal and local laws, regulations, permits, orders and other requirements, which are referred to collectively as "environmental requirements" designed to protect the human and natural environment, human health and safety and to inform the public of important environmental issues and potential impacts of Port activities. The basic environmental assessment laws are the federal National Environmental Policy Act ("NEPA"), the Water Pollution Control Act ("WPCA") and the Air Pollution Control Act ("APCA"). NEPA requires consideration and disclosure of the environmental impacts of projects or actions that are approved, funded or carried out by federal agencies, while WPCA establishes water quality guidelines and the APCA regulates the emission of regulated or hazardous air pollutants by any public body, including the Port.

Federal environmental requirements applicable to the Port include, without limitation, those that govern hazardous waste and materials, toxic substances, water quality (including, storm water), dredged material, air quality, and endangered species. The federal agencies that enforce these laws include, without limitation, the U.S. Environmental Protection Agency (the "USEPA") and the U.S. Army Corps of Engineers. The Port also must comply with local environmental requirements, including, without limitation, those that govern hazardous waste and materials, storage tanks, development along the shoreline, water quality, air quality, and climate change. The Government delegated enforcement authority to the Guam Environmental Protection Agency ("GEPA"). GEPA is the agency tasked with ensuring a high quality environment be maintained at all times to guarantee an enjoyable life for all people at present and in the future, and that environmental degradation of the quality of land, water and air by any pollutants, including all physical, chemical and biological agents, not be allowed in or around Guam, including the Port. Where the federal government has not delegated authority, GEPA enforces the environmental rules and regulations applicable to Guam.

In addition to complying with environmental requirements directly applicable to the Port, the Port monitors laws and regulations that may affect Port tenants, customers, and other users of the Port (collectively, "**business partners**") to determine if the costs of compliance could affect the Port's levels of activity and therefore its revenues or expenses. While these regulations may not directly apply to the Port or require the Port to take actions to ensure compliance, where appropriate and feasible, the Port may support its business partners, financially or otherwise, in complying with regulations, undertaking related projects, or designing compliance programs.

Portions of the Port's property have been used in the past for a variety of industrial and commercial purposes. None of these former uses have left behind environmental contamination in the soil, ground or seawater requiring the Port remediate or mitigate the contamination. The Port's financial statements do not include accrued liabilities for the costs of compliance with environmental requirements and remediation of known contaminants possibly left behind by former Port users. While the Port does not set aside funds to pay for such liabilities, the Port does not anticipate it will discover environmental liabilities in the future relating to such contamination as a result of past industrial or commercial uses.

In September 2017, the USEPA inspected the Authority's equipment maintenance and repair facilities (the "EQMR Facilities") to determine compliance with the requirements of the National Pollutant Discharge Elimination System Multi Sector General Permit for Stormwater Discharges Associated with Industrial Activities (the "NPDES Permit"). Pursuant to the inspection report transmitted to the Authority in February 2018, the USEPA identified several concerns at the EQMR Facilities and recommended that the Authority (i) address leaks and spills from the mobile gantry crane; (ii) assess potential for pollutant mobilization at the rebar storage area; (iii) evaluate the downspout routing from the roof of the EQMR to ensure that pollutants are not flushed out from a covered maintenance area during a storm event; and (iv) verify the stormwater discharges associated with a specific outfall. As of the date

of this Official Statement, the Authority has addressed all of the USEPA's concerns and the Authority has not been assessed any fines or received any formal notification regarding any such fines from the USEPA.

See also "CERTAIN INVESTOR CONSIDERATIONS—Environmental Compliance and Impact."

Pension and Other Post-Retirement Benefit Plans

General. The Government of Guam Retirement Fund (the "**GGRF**") provides retirement annuities and other payments to retired Government employees, including employees of the Authority, and their dependents. Employees hired on or before September 30, 1995 are members of the Government of Guam Employees Retirement System, a defined benefit pension plan (the "**DB Plan**"). Employees hired after September 30, 1995 are members of the Defined Contribution Retirement System (the "**DC Plan**") but may elect to become members of the Defined Benefit 1.75 Retirement System (the "**DB 1.75 Plan**"). Employees hired between April 1, 2017 and December 31, 2017 are members of the DC Plan but may also elect to become members of the DB 1.75 Plan. Eligible DC Plan members may elect to participate in the DB 1.75 Plan or the Guam Retirement Security Plan (the "**GRSP**"), a cash balance plan, during the established election periods between April 1, 2017 and January 31, 2018. A member's election will only apply to members who are employed by the Government as of January 1, 2018. Beginning January 1, 2018, the GRSP is the default plan for all new employees whose employment commences on or after that date. These new employees will have 60 days from the date of hire to elect to participate in the DC Plan. The DB Plan, DC Plan, DB 1.75 Plan, and GRSP are administered by the GGRF.

DB Plan. The DB Plan is a single-employer (Government of Guam) defined benefit pension plan to which the Authority contributes based upon a fixed percentage of the payroll for those employees who are members of the DB Plan. A single actuarial valuation is performed annually covering all DB Plan members, and the same contribution rate applies to each employer, including the Authority. Members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The DB Plan member and employer contribution requirements are established by statute.

The GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. As of September 30, 2016 (the most recent date for which such information is publicly available), there were a total of 13,969 members (active, inactive and retirees) in the DB Plan, and 9,506 active employees and 4,463 inactive members with account balances under the DB Plan. As of September 30, 2017, 295 Authority employees were members of the DB Plan.

Based on the Government of Guam Retirement Fund Actuarial Valuation as of September 30, 2016 (the "**2016 Valuation**"), the DB Plan had an actuarial accrued liability of approximately \$2.905 billion, with an unfunded actuarial accrued liability of approximately \$1.249 billion, or a funded ratio of 57.0%.

Under Title 4, Chapter 8, Section 8137 of the Guam Code Annotated, as amended, the Government of Guam is required to completely fund the unfunded actuarial accrued liability by 2033, effective January 1, 2018. The annual actuarial valuations prepared for the DB Plan include actuarial employer contribution rates intended to satisfy this requirement. The actuarial employer contributions rates set forth in the annual valuations apply to the fiscal year beginning one year after the valuation date. The following table sets forth the actuarial employer contribution rates of covered payroll for Fiscal Years 2012 through 2016 based on the information provided in the 2016 Valuation and in prior valuations:

Table 10
Actuarial Employer Contribution Rates of Covered Payroll
Fiscal Years 2012 through 2016

Fiscal Year	Rate
2012	30.03%
2013	29.85
2014	28.16
2015	27.41
2016	27.83

Source: The Authority.

Although the actuarial contributions rates are provided to the Legislature of Guam by the GGRF in advance of each Fiscal Year and used for budget preparation, the Legislature of Guam is not required to adopt such rates. Table 11 sets forth statutory contribution rates of covered payroll for Fiscal Years 2012 through 2016. Statutory employee contribution rates for the DB Plan were 9.50% in each such Fiscal Year.

Table 11
Statutory Employer Contribution Rates of Covered Payroll
Fiscal Years 2012 through 2016

Fiscal Year	Rate
2012	28.30%
2013	30.09
2014	30.03
2015	29.85
2016	28.16

Source: The Authority.

In addition, statutory employer contribution rates of covered payroll for Fiscal Years 2017 and 2018 are 27.41% and 27.83%, respectively, and statutory employee contribution rates for the DB Plan continue to be 9.50% in each such Fiscal Year.

The following table sets forth the actual contributions made by the Authority to the DB Plan during the Fiscal Years 2014 through 2016. Such amounts were equal to the required actuarial contributions to the DB Plan for Fiscal Years 2014 through 2016.

Table 12
Authority Contributions to DB Plan
Fiscal Years 2014 through 2016

Fiscal Year	Amount
2014	\$1,523,378
2015	1,484,519
2016	1,343,278

Source: The Authority.

In addition, the Authority contributed \$1,327,533 to the DB Plan for Fiscal Year 2017. Such amount was equal to the required actuarial contribution to the DB Plan for Fiscal Year 2017.

DC Plan. The DC Plan is a single-employer (Government of Guam) pension plan. As of September 30, 2016 (the most recent date for which such information is publicly available), there were a total of 8,858 members (active) in the DC Plan. As of September 30, 2017, 50 Authority employees were members of the DC Plan.

Contributions to the DC Plan by members are based on an automatic deduction of 5.0% of the member's regular base pay through December 31, 2017 and 6.2% of the member's regular base pay starting on January 1, 2018. Contributions are deposited into each individual employees' 401(a) account with the DC Plan. The statutory employer contribution rate for the DC Plan for Fiscal Years 2015, 2014 and 2013 were determined using the same employer statutory contribution rates as the DB Plan. Of such amounts contributed by the employers under the DC Plan, an amount equal to 5.0% of the DC Plan member's regular base pay through December 31, 2017 and 6.2% of the DC Plan member's regular base pay starting on January 1, 2018 is deposited into the member's individual annuity account; the remaining amount in excess of 5.0% through December 31, 2017 and 6.2% starting on January 1, 2018 of the DC Plan member's regular base pay is contributed towards the unfunded liability of the DB Plan. DC Plan members are fully vested upon the completion of five years of government service.

The following table sets forth the Authority's contributions to the DC Plan, as well as the portion of such contributions that are applied to the unfunded liability of the DB Plan for Fiscal Years 2014 through 2016. Such amounts were equal to the required actuarial contributions to the DC Plan for Fiscal Years 2014 through 2016.

Table 13
Authority Contributions to DC Plan and DB Plan toward Unfunded Liability
Fiscal Years 2014 through 2016

Fiscal Year	DC Plan Amount	Portion of DC Plan Amount to DB Plan
2014	\$3,071,594	\$2,539,399
2015	3,250,299	2,688,140
2016	3,251,007	2,673,768

Source: The Authority.

In addition, the Authority contributed \$3,548,584 to the DC Plan for Fiscal Year 2017. Such amount was equal to the required actuarial contribution to the DC Plan for Fiscal Year 2017.

GASB 67 and 68. In June 2012, the Governmental Accounting Standards Board ("GASB") issued GASB Statement 68, Accounting and Financial Reporting for Pensions ("**GASB 68**"), requiring changes in how state and local governments calculate and report the costs and obligations associated with providing pension benefits. In October 2015, the GGRF published the Government of Guam Retirement Fund GASB 67 and 68 Disclosures as of September 30, 2014 (the "**GASB 68 Report**"), prepared by Milliman, Inc., the Government's actuary. The GASB 68 Report included schedules for the allocation of net pension liability by component unit, to be used by employers required to implement GASB 68, including the Authority.

Based on the information included in the schedules to the GASB 68 Report, the Authority's share of the Net Pension Liability (the present value of the unfunded portion of future benefits which have accrued) as of September 30, 2014 was approximately \$44 million. The implementation of GASB 68 had a material effect on the Authority's financial statements, resulting in the restatement of the Authority's financial statements for Fiscal Year 2014 to reflect the reporting of deferred outflows of resources relating to its pension plan of \$4 million, deferred inflows of resources related to its pension plan of \$3 million and a Net Pension Liability of \$44 million, which also resulted in the restatement of the Authority's net position for Fiscal Year 2014. For Fiscal Year 2015, the Authority reported deferred outflows of resources relating to its pension plan of \$4 million, deferred inflows of resources related to its pension plan of \$5 million and a Net Pension Liability of \$38 million. For Fiscal Year 2016, the Authority reported deferred outflows of resources relating to its pension plan of \$6 million, deferred inflows of resources related to its pension plan of \$0 million and a Net Pension Liability of \$44 million. For Fiscal Year 2017, the Authority reported deferred outflows of resources relating to its pension plan of \$5 million, deferred inflows of resources related to its pension plan of \$0.4 million and a Net Pension Liability of \$44 million.

DB 1.75 Plan and Guam Retirement Security Plan. In September 2016, the Legislature of Guam overrode the Governor's veto and approved Public Law 33-186, which creates as alternatives to the DC Plan, upon timely election by applicable members in accordance with regulations to be promulgated, a new "Defined Benefit 1.75" retirement system (the "**DB 1.75 Plan**") and a new Guam Retirement Security Plan ("**GRSP**"), a cash balance plan.

The DB 1.75 Plan is a governmental defined benefit pension plan with an effective date of January 1, 2018. The DB 1.75 Plan is not a stand-alone and separate plan, but rather is an alternative benefit structure under GGRF. The DB 1.75 Plan is open for participation by certain existing employees, new employees, and reemployed employees who would otherwise participate in the DC Plan or the new GRSP (as described below) and who make a timely election on a voluntary basis to participate in the DB 1.75 Plan. New employees that commenced employment between April 1, 2017 and December 31, 2017 were able to elect to become a member of the DB 1.75 Plan instead of participating in the DC Plan by filing a new employee election (a “**New Employee Election**”). A New Employee Election was required to be made during the window commencing on the date of employment and ending on December 31, 2017 (or January 31, 2018 if the date of employment commenced in the month of December 2017) (the “**New Employee Election Window**”). During the New Employee Election Window, approximately 43% of new employees elected to become a member of the DB 1.75 Plan.

Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 9.5% of the employee’s base salary. The employer makes contributions to the DB 1.75 Plan in accordance with reasonable actuarial methods and assumptions based on the determination of the GGRF. Members of the DB 1.75 Plan automatically participate in the Government deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution.

The GRSP is a governmental defined benefit plan with an effective date of January 1, 2018. The GRSP is intended to be the primary retirement plan for new employees beginning January 1, 2018. Certain existing employees and members of the DC Plan are also provided limited opportunity to participate in the GRSP. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 6.2% of the employee’s base salary. The employer makes matching contributions at the same rate of 6.2% of the employee’s base salary.

In addition, Public Law 33-186 provides that if the Government is authorized to extend Social Security coverage to Government employees on a prospective basis, then all employees hired on or after the effective date or dates from which such coverage is extended will be enrolled into Social Security and will not be eligible for the DB 1.75 Plan or the GRSP. The provisions of Public Law 33-186 are not effective until January 1, 2018 and no actuarial valuation of the DB 1.75 Plan or the GRSP has been performed; however, it is possible that the unfunded actuarial accrued liability of the GGRF may increase if the Government authorizes to extend Social Security coverage to Government employees.

Other Post-Employment Benefits. The Government makes certain annual expenditures for certain postretirement healthcare benefits (“**OPEB**”) to retirees who are members of the GGRF. In 2008, the Government was required to account for and report OPEB under GASB Statement No. 45. The Government provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The Government shares in the cost of these plans with its contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, the Government contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, the Government provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. As of Fiscal Year 2016 (the latest Fiscal Year for which such information is available), the OPEB unfunded actuarial accrued liability for the Government was approximately \$1.3 billion, of which \$34.1 million is allocable to the Authority.

The Governor’s Executive Budget transmitted to the Legislature of Guam typically includes provisions to appropriate sums from the General Fund to accommodate the cost-of-living-allowances (“**COLA**”), supplemental annuities and the medical and dental benefits (generally, the Government’s share of the premiums for the retirees’ insurance) for Government of Guam retirees, which the Government is currently paying on a “pay-as-you-go” basis. The Authority is then required to reimburse the General Fund for the OPEB costs of the Authority’s retirees.

The following table sets forth contributions made by the Authority for Fiscal Years 2014 through 2016 to reimburse the Government for the OPEB costs of the Authority’s retirees.

Table 14
Authority Contributions to Reimburse OPEB Costs
Fiscal Years 2014 through 2016

Fiscal Year	Amount
2014	\$2,320,421
2015	2,790,239
2016	3,030,245

Source: The Authority.

In addition, the Authority contributed \$3,033,254 to reimburse the Government for the OPEB costs of the Authority's retirees for Fiscal Year 2017.

GASB 73. In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The implementation of GASB 73 had a material effect on the Authority's financial statements, resulting in the restatement of the Authority's financial statements for Fiscal Year 2016 to reflect the reporting of pension liabilities of \$13 million, deferred inflows of resources of \$0.4 million and deferred outflows of resources of \$1 million for ad hoc COLAs and supplemental annuity payments, which also resulted in the restatement of the Authority's net position for Fiscal Year 2016. The financial statements for Fiscal Year 2016 were also restated due to changes in actuarial assumptions resulting from the implementation of GASB 73 and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan. For Fiscal Year 2017, the Authority reported deferred outflows of resources relating to its ad hoc COLAs and supplemental annuity payments of \$1 million, deferred inflows of resources relating to its ad hoc COLAs and supplemental annuity payments of \$0.6 million and a Net Pension Liability of \$13 million.

GASB 74 and 75. In June 2015, GASB approved new accounting and financial reporting standards for state and local government OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans ("**GASB 74**"), applies to OPEB plans. Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("**GASB 75**"), applies to state and local employers that sponsor OPEB. Generally, the new OPEB standards parallel those applied to defined-benefit pension plans and participating employers by GASB 67 and 68, respectively. The new standards introduce new procedures for measuring OPEB liabilities and costs, require employers to report a net OPEB liability on their financial statements, and require more extensive disclosure in plan and employer financial statements. GASB 74 was effective for plans with fiscal years beginning after June 15, 2016. GASB 74 did not have a material impact on the financial statements. GASB 75 will be effective for employers for fiscal years beginning after June 15, 2017. The potential impact of GASB 75 on the Authority's financial statements is anticipated to be \$39 million as of September 30, 2017.

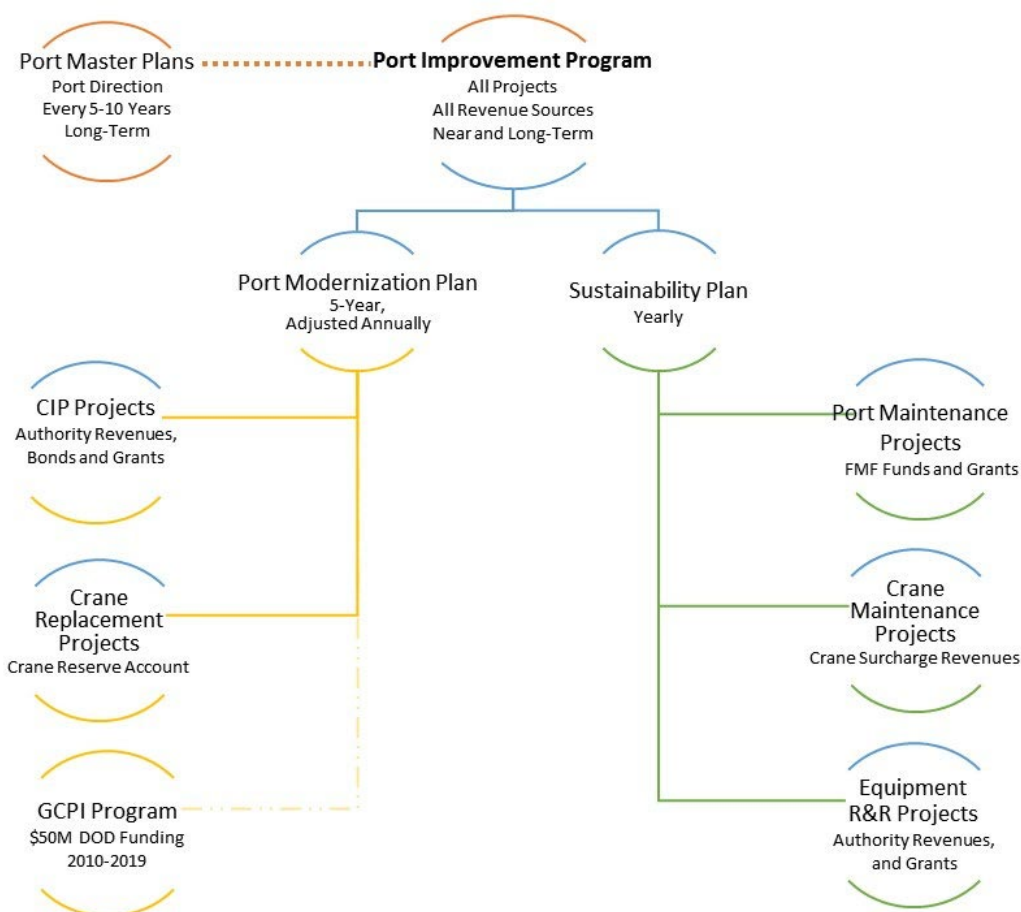
PORT IMPROVEMENT PROGRAM

General

The Authority first commissioned the "Commercial Port of Guam Master Plan" (the "**Original Master Plan**") in February 1981. The purpose of the Original Master Plan was to (i) estimate future waterborne commerce through the Port and analyze the ability of existing facilities to handle it; (ii) determine the feasibility of expanding the Port; (iii) analyze the potential for establishing a fisheries center and fish processing facility on Guam; and (iv) update a land-use plan for Cabras Island and the surrounding area. The Original Master Plan has been updated several times, including in 1990 and 1999. In August 2007, the Authority commissioned the "Jose D. Leon Guerrero Commercial Port of Guam Master Plan Update 2007 Report" (the "**2007 Master Plan**"), an additional and significant update to the Port's Original Master Plan. The 2007 Master Plan included an impact assessment on the Port's facilities due to potential relocation of Okinawa-based Military personnel and related ancillary activities and major developments affecting Guam, which would have resulted in a substantial increase to the population base as well as construction activity for base construction and development of Guam's infrastructure.

In March 2013, the Authority commissioned the “Jose D. Leon Guerrero Commercial Port of Guam Master Plan Update 2013 Report” (the “**2013 Master Plan**”), an update to the 2007 Master Plan. The 2013 Master Plan described two categories of projects: the “**Port Modernization Plan**” and the “**Sustainability Plan**” which, together, make up the “**Port Improvement Program**.” The following figure illustrates the Port Improvement Program.

Figure 1
Port Improvement Program



Source: The Consulting Engineer’s Report.

Certain projects, originally included in the 2007 Master Plan and the 2013 Master Plan, are now described in the Authority’s Port Improvement Program. Such projects are reviewed and approved by the Authority Board as part of the Authority’s annual budget. For more information regarding the 2007 Master Plan and the 2013 Master Plan, see “APPENDIX A—CONSULTING ENGINEER’S REPORT—INTRODUCTION--Background”

The Port Improvement Program for Fiscal Years 2018-2022 (the “**2018-2022 PIP**”) totals \$129.1 million and consists of (i) the 2018-2022 CIP; (ii) crane replacement projects; (iii) GCPI projects; (iv) Port maintenance projects; (v) crane maintenance projects; and (vi) equipment renewal and replacement projects. Each category of projects is further described below.

Capital Improvement Plan

General

The Authority annually reviews and adjusts its five-year capital improvement plan to address ongoing renewal and replacement needs at the Port. In general, the facilities and equipment required to sustain Port operations include appropriately sized and conditioned (i) berths, wharfs and piers; (ii) buildings and support facilities; (iii) terminal cargo handling equipment (cranes and yard equipment); (iv) utility systems (power/lighting, storm, potable water, fire main, sanitary sewer, fuel); (v) pavements and structures (access and traffic, storage, containment and washdown areas); (vi) security fencing and gates; and (vii) computerized terminal operating systems.

Funding for Fiscal Year 2018-2022 Capital Improvement Plan Projects

The capital cost of implementing the 2018-2022 CIP is estimated at approximately \$74.5 million. The Authority expects to finance the 2018-2022 CIP with a combination of (i) proceeds of the 2018 Bonds, (ii) Port revenues; and (iii) various grants from the Federal Government. The following table sets forth the sources of funds for the 2018-2022 CIP.

Table 15
Sources of Funds for 2018-2022 CIP
(\$000)

Source	Total	Percent of Total
2018 Bonds	\$47,482	63.8%
Federal Government Grants ⁽¹⁾	15,570	20.9
Port Revenues	11,407	15.3
Total:	\$74,459	100.0%

⁽¹⁾ The Authority has been awarded approximately \$11.4 million in Federal Government grants over the past five years for 2018-2022 CIP projects. In addition, the Authority has applied for approximately \$4.2 million in Federal Government grants for additional 2018-2022 CIP projects. See also “THE PORT—Major Sources of Operating Revenue—*Federal Government Grants*.”

2018 Bonds. The Authority intends to finance approximately \$47.5 million, or 63.8%, of the 2018-2022 CIP with proceeds from the 2018 Bonds. The 2018 Bonds are planned to finance all or a portion of (i) Hotel Wharf and Access Road Revitalization and Upgrades; (ii) New Administration Building; (iii) Waterline Replacement and Relocation; (iv) Equipment Maintenance and Repair Building Repairs and Upgrades; (v) Warehouse I Repairs and Upgrades; and (vi) Golf Pier Repairs and Improvements. For a description of these 2018-2022 CIP projects to be funded with proceeds of the 2018 Bonds, see “APPENDIX A—CONSULTING ENGINEER’S REPORT—PORT IMPROVEMENT PROGRAM.”

Federal Government Grants. The Authority intends to finance approximately \$15.6 million, or 20.9%, of the 2018-2022 CIP with grants from the Federal Government. The Port has been awarded federal grants from the U.S. Department of Transportation through the TIGER program, the U.S. Department of Homeland Security FEMA through the PSGP, and the U.S. Department of the Interior Fish and Wildlife Service. For more information regarding federal grants awarded to and anticipated by the Authority, See “THE PORT—Major Sources of Operating Revenue—*Federal Government Grants*.”

Port Revenues. The Authority intends to finance approximately \$11.4 million, or 15.3%, of the 2018-2022 CIP with ongoing Port revenues, all of which are pledged to the payment of the 2018 Bonds. See “THE PORT—Major Sources of Operating Revenue.”

See also “CERTAIN INVESTOR CONSIDERATIONS—Implementation of 2018-2022 Capital Improvement Plan” and “APPENDIX A—CONSULTING ENGINEER’S REPORT—PORT IMPROVEMENT PROGRAM—CIP Funding”

Crane Replacement Projects

The crane replacement projects within the 2018-2022 PIP are estimated to cost approximately \$10.0 million and are funded from Crane Surcharge revenues in the CR Account. Such projects include purchasing future STS gantry cranes, including the acquisition of a fourth STS gantry crane expected to be commissioned in 2021. See also “THE PORT—Major Sources of Operating Revenue—*Crane Surcharges—Crane Reserve Account*” and “APPENDIX A—CONSULTING ENGINEER’S REPORT—FINANCIAL POSITION OF THE AUTHORITY—Authority Operating Revenues—Crane Surcharge.”

Guam Commercial Port Improvement Program

The DoD provided \$50 million to the Authority in 2010 to implement the Guam Commercial Port Improvement Program. The GCPI Program was established and fully funded by the DoD to increase the Port’s efficiency and to create additional cargo handling areas to accommodate the military build-up, as recommended in the 2007 Master Plan and the 2013 Master Plan. The majority of the GCPI Program was completed in 2015, with only \$2.6 million remaining for cargo handling equipment and final construction modifications expected to be completed by October 2019. With the completion of the GCPI Program projects in 2015, the Port’s cargo handling facilities have surplus capacity to accommodate the forecasted cargo from an increasing population and tourism industry as well as the military build-up. See also “THE TERRITORY OF GUAM” and “APPENDIX A—CONSULTING ENGINEER’S REPORT—INTRODUCTION—Background.”

Port Maintenance Projects

The Port maintenance projects within the 2018-2022 PIP are estimated to cost approximately \$8.0 million and are primarily funded with FMF revenues. Such projects are related to the continual operation and maintenance of the Port’s facilities and equipment, including repairs, retrofits and renovations (e.g., securing additional reefer outlets, replacing wharfs fenders, demolition of certain facilities, construction of restroom facilities, replacement of progressive terminal pavement, and draining the container yard trench). See also “THE PORT—Major Sources of Operating Revenue—*Facility Maintenance Fee*” and “APPENDIX A—CONSULTING ENGINEER’S REPORT.”

Crane Maintenance Projects

The crane maintenance projects within the 2018-2022 PIP are estimated to cost approximately \$26.5 million and are funded from Crane Surcharge revenues allocable to the CO Account. Such projects include demolishing two STS gantry cranes and two rubber-tired cranes that are currently decommissioned. See also “THE PORT—Major Sources of Operating Revenue—*Crane Surcharges—Crane Operating Account*” and “APPENDIX A—CONSULTING ENGINEER’S REPORT—FINANCIAL POSITION OF THE AUTHORITY—Authority Operating Revenues—Crane Surcharge.”

Equipment Renewal and Replacement Projects

The equipment renewal and replacement projects within the 2018-2022 PIP are estimated to cost approximately \$7.5 million and are funded from Port revenues. Such projects include the renewal or replacement of the Authority’s top lifters, yard tractors and forklifts. Top lifters are typically replaced every 10-15 years, yard tractors are typically replaced every 10 years and forklifts range in replacement time from 5-12 years depending on their size. The Authority evaluates whether such equipment needs to be replaced on an annual basis.

CONSULTING ENGINEER’S REPORT

The Consulting Engineer’s Report summarizes the analyses, projections and conclusions regarding the Authority’s proposal to issue the 2018 Bonds and presents a summary of the Authority’s existing assets, operations and capacities and proposed/projected demand and finances within a five-year planning horizon. The Consulting Engineer’s Report includes, among other things, information regarding (i) Guam’s government, population, economy and military significance; (ii) the Port’s location, assets and tenants; (iii) cargo trends and projected demand for annual throughput at the Port; (iv) projects anticipated to be completed at the Port in the next five years including projects to

be financed with proceeds of the 2018 Bonds; and (v) projected operating revenue and expenses and the Authority's financial position.

No assurance can be given that the projections and expectations described in the Consulting Engineer's Report will be achieved or that the assumptions upon which the projections and conclusions are based will be realized. There may be differences between the projections and actual results, and such differences may be material. The financial projections in the Consulting Engineer's Report are based upon certain information and assumptions that were provided or reviewed with and agreed to by the Authority. In the opinion of the Consulting Engineer, these assumptions provide a reasonable basis for the projections set forth in the Consulting Engineer's Report. The Consulting Engineer's Report is an integral part of this Official Statement and should be read in its entirety. The Consulting Engineer's Report has not been revised subsequent to its date of publication (June 12, 2018). See "APPENDIX A—CONSULTING ENGINEER'S REPORT."

WSP provides technical support to the Authority in the areas of engineering and planning services, program management, financial analysis and other related services. In addition, WSP has served as the Port Owner's Agent/Engineer since 2007. In such capacity, WSP assisted in the development of the Authority's 2007 Master Plan and 2013 Master Plan.

CERTAIN INVESTOR CONSIDERATIONS

The following discussion of considerations is not meant to be an exhaustive list of the risks associated with the purchase of the 2018 Bonds and does not necessarily reflect the relative importance of the various risks. Potential purchasers of the 2018 Bonds are advised to consider the following factors, among others, and to review all of the other information in this Official Statement in evaluating whether to purchase the 2018 Bonds. Any one or more of the risks discussed, and others, could lead to a decrease in the market value and/or in the ability to sell the 2018 Bonds in the secondary market. No assurance can be given that other risk factors will not become material in the future. The 2018 Bonds may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the 2018 Bonds and should confer with their own legal and financial advisors before considering a purchase of the 2018 Bonds.

Guam Economy; Impact of Tourism and U.S. Military Presence

The Authority's ability to generate Revenues depends in large measure, on the local economy, which is heavily dependent on tourism and the U.S. military presence, both of which are dependent on world economic, social and political events.

Tourism. Tourism represents a significant share of the economic activity on Guam. Historically, the tourism industry, both worldwide and on Guam, has correlated closely with the state of the world's economies and levels of real disposable income. A weak economy, war, epidemic outbreaks, or the threat of terrorist activity, among other influences that are beyond the Government's control, can adversely affect the tourism industry. Also, currency exchange rates, trade balances, political relationships, and conflicts within and between countries are increasingly important influences on tourism.

Economic conditions in Japan, South Korea and throughout the Pacific Rim, and the resulting effect on overseas travel from these countries, are a major determinant of tourism on Guam. The Japanese government has encouraged international travel as a means of reducing its trade surplus and Guam has benefited directly from this policy. Any change in Japan's international travel policy could affect tourism in Guam. Tourism, particularly from Japan and South Korea, where, in Fiscal Year 2017, approximately 43% and 42% of visitors, respectively, to Guam originate, represents a significant share of the economic activity on Guam. A significant downturn in tourism, including a downturn related to Japanese or South Korean economic conditions or social policies, could result in reduced revenues from hotels and other related tourist facilities. No assurance can be given that Guam will not experience a reduction in the number of visitors from Japan, South Korea or other visitor markets as a result of natural disasters or other economic, political or societal conditions.

The Guam Visitors Bureau (“GVB”) projects that the total number of tourists visiting Guam in Fiscal Year 2018 will be approximately 3.7% below the total number of tourists in Fiscal Year 2017. The GVB is actively promoting tourism in Guam, including working with travel agents to market group-travel initiatives. Furthermore, the tourism task force that Governor Calvo created in October 2017 with GVB, the Airport and GEDA (the “**Task Force**”) is focused on increasing airplane seat capacities.

For more information regarding tourism in Guam, see “APPENDIX B—GENERAL INFORMATION REGARDING THE TERRITORY OF GUAM.” See also “—Uncertainties Relating to Political and Military Action.”

U.S. Military Presence. The Authority’s level of Revenues is also affected by the U.S. military presence on Guam. The U.S. military presence affects economic activity on Guam in various ways, both directly, through individuals’ demand for commercial, construction and other services, and expansions in the U.S. military presence, such as the expansions expected to occur over the next several years, can have a direct, positive impact on the Guam economy by spurring new economic activity and attracting visitors to Guam. However, economic, geopolitical, and other influences that are beyond the Government’s and the Authority’s control might result in a decision by the Federal Government to reduce the existing presence of the U.S. military on Guam or forego some or all of the planned enhancements to its presence on Guam. Approximately 5,000 marines and 1,300 dependents from Okinawa, Japan and other locations are expected to be relocated to Guam by Fiscal Year 2026, with the first 2,500 marines moving to a new Marine Corps base to be built on existing federal land in Finegayan, Dededo (near Andersen Air Force Base in the northern part of Guam) in Fiscal Year 2022. In the event that the U.S. military changes its current plans with respect to staffing and other strategic improvements on Guam, expected benefits may not be realized and the economy could be adversely affected. In the event that the U.S. military elects to reduce or eliminate its presence on Guam, the economy could decline.

For more information regarding U.S. military presence on Guam, see “APPENDIX B—GENERAL INFORMATION REGARDING THE TERRITORY OF GUAM.” See also “—Uncertainties Relating to Political and Military Action.”

Status of H-2B Visas. The anticipated relocation of U.S. Marines from Okinawa, Japan is expected to generate a significant amount of additional construction activity on Guam. The construction industry is heavily dependent on skilled foreign workers that require H-2B visas in order to work on Guam. However, the denial of nearly all H-2B visas by the U.S. Citizenship and Immigration Services (“USCIS”) in Fiscal Years 2016 and 2017 resulted in a labor shortage and an economic downturn for Guam.

In October 2016, 11 Guam-based companies and the Guam Contractors Association initiated a class-action lawsuit against USCIS and other federal agencies, alleging that, starting in 2016, USCIS began rejecting their H-2B visa petitions for work during exceptionally busy periods at a rate approaching 99% compared to a prior Guam average approval rate of approximately 95% through 2015. In January 2018, the U.S. District Court of Guam preliminarily enjoined USCIS from relying on the failure to satisfy peak-load or one-time occurrence conditions as grounds for denying H-2B visa petitions and ordered USCIS to reconsider H-2B visa petitions that were previously denied (the “**2018 Preliminary Injunction Order**”). In April 2018, the U.S. District Court of Guam certified a class of businesses in Guam, thereby permitting Guam employers who believe they have had unlawful denials of H-2B visa petitions by USCIS to seek temporary relief under the 2018 Preliminary Injunction Order. According to the Guam Department of Labor Alien Labor Processing and Certification Division, between the date of the 2018 Preliminary Injunction Order and April 20, 2018, approximately 1,601 H-2B visa petitions have been filed. Of such amount, 654 H-2B visa petitions for military related projects were filed by two Guam-based companies and received approval by USCIS in March 2018. The remaining 947 H-2B visa petitions are currently undergoing the application process with USCIS. Between the date of the 2018 Preliminary Injunction Order and April 20, 2018, no H-2B visa petition has been denied by the USCIS.

Pursuant to the 2018 NDAA, which was signed into law on December 12, 2017, up to 4,000 H-2B visas per fiscal year are now allowed for workers in Guam and CNMI that are working on construction projects related to the military buildup. The 2018 NDAA also extended Guam’s exemption from the national H-2B visa cap through 2023.

For more information regarding the status of H-2B visas, see “APPENDIX B—GENERAL INFORMATION REGARDING THE TERRITORY OF GUAM.”

Uncertainties Relating to Political and Military Action

Guam is approximately 3,800 miles west-southwest of Honolulu, Hawaii, the nearest major city of the U.S. The significant U.S. military presence on Guam, its distance from locations in the U.S. and its location in relation to potential sites of political and military conflict in Asia make Guam both a location of great value to the U.S. militarily and a potential site of military conflict. Political events in Asia may create the risk of conflict for the region in general and, in some cases, for Guam. In response to threats in 2013 by North Korea to launch ballistic missile attacks against U.S. military targets, including targets on Guam, the U.S. military deployed a missile defense system to Guam. Recent threats by North Korea in August 2017 have contributed, in part, to the declining number of tourists visiting Guam in Fiscal Year 2018, which is projected to be approximately 3.7% below the total number of tourists in Fiscal Year 2017. No assurance can be given that these threats and any future military actions will not have an adverse effect on Guam tourist activity or that any decline in the total number of tourists will have an adverse effect on the Port's Revenues.

Uncertainties of the Maritime Industry

The Port's ability to generate revenues depends on demand for maritime facilities, which in turn depends, in part, upon the financial health of the maritime industry. The maritime industry is economically volatile and has undergone significant changes, including mergers, acquisitions, bankruptcies and closures, in recent years. The maritime industry, and the demand for, and utilization of Port facilities are sensitive to a variety of factors, including, but not limited to, (i) general economic conditions, (ii) international trade, (iii) currency values, (iv) the cost and availability of labor, fuel and insurance, (v) competitive considerations, (vi) adequacy of land-side infrastructure, (vii) governmental regulation, including tariffs and trade restrictions, (viii) maintenance and environmental requirements, (ix) international hostilities and political turmoil, (x) shipping line alliances and mergers and (xi) disruption caused by natural disasters, criminal incidents and acts of war or terrorism. The maritime industry is also vulnerable to strikes and other union activities. Tenants and customers of the Port may also file for bankruptcy protection. The impacts of a bankruptcy are discussed under "—Tenant/Customer Bankruptcy."

Dependence on Major Carriers

The loss of a major carrier or tenant could adversely affect both the Port's financial condition, particularly if not replaced promptly by a new carrier that has the capacity to carry similar amounts of cargo in and out of the Port and provides similar service routes or by a new tenant that is willing to lease the former tenant's space on similar or better terms for the Port. Matson is currently the primary carrier at the Port and carried approximately 64.3% of all cargo coming in and out of the Port in Fiscal Year 2017. Matson and Consolidated Transportation Services were the top two sources of revenue in Fiscal Year 2017, accounted for approximately 60.7% of the Port's operating revenue. See "THE PORT—Major Sources of Operating Revenues."

Possible Failure of STS Gantry Cranes

The Authority owns three STS gantry cranes that are currently operational. See "THE PORT—Cargo Terminal Equipment—*STS Gantry Cranes*." The Authority's equipment, including the STS gantry cranes, are exposed daily to a salty and corrosive environment, as well as high-sulfur diesel exhaust fumes from GPA's adjacent power plant. Such environmental conditions can lead to premature aging of key infrastructure, such as the STS gantry cranes. To ensure that the STS gantry cranes operate safely, efficiently and in compliance with regulatory standards, the Authority has a Crane Structured Maintenance Program (the "**Crane Structured Maintenance Program**"). The Crane Structured Maintenance Program includes a planned maintenance schedule comprised of preventative maintenance activities, planned corrective maintenance activities and unplanned corrective maintenance tasks. The Authority also plans to obtain a performance management contractor to train staff on proper performance, operation, maintenance, emergency response, trouble shooting, diagnostic and repairs to STS gantry cranes on an as-needed basis. Furthermore, the Authority has designated streams of revenues from Crane Surcharges dedicated to, among other things, annual crane operation and maintenance and repair (see "THE PORT—Major Sources of Operating Revenue—*Crane Surcharges—Crane Operating Account*"), as well as extraordinary maintenance events (see "THE PORT—Major Sources of Operating Revenue—*Crane Surcharges—Crane Reserve Account*"). However, if one of the three operational STS gantry cranes were to completely fail and not be promptly replaced, it is likely that the Port could experience a reduction in revenues, possibly for a significant period. In such an event, the Authority could direct carriers to use ship's gear (if available) to move cargo, extend hours of operation for the operational cranes, or institute

other temporary operational changes (e.g., assignment of labor/equipment) to increase productivity of operational cranes. Furthermore, the Authority currently plans to acquire a fourth STS gantry crane in 2021, which is expected to provide additional crane capacity and allow for additional weekly preventive maintenance rotations for the entire STS gantry crane fleet.

Implementation of 2018-2022 Capital Improvement Plan

Construction projects for the 2018-2022 CIP are subject to ordinary construction risks and delays applicable to projects of their kind, such as (i) inclement weather affecting contractor performance and timeliness of completion, which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (ii) contractor claims or nonperformance; (iii) failure of contractors to execute within contract price; (iv) work stoppages or slowdowns; (v) failure of contractors to meet schedule terms; (vi) errors or omissions in contract documents requiring change orders; (vii) the occurrence of a major seismic event; or (viii) unanticipated project site conditions, including the discovery of hazardous materials on the site or other issues regarding compliance with applicable environmental standards, and other natural hazards or seismic events encountered during construction. Increased construction costs or delays could impact the Authority's financial condition in general and the implementation of its 2018-2022 CIP in particular. Construction contracts do not generally require the contractor to bear the cost of major unanticipated events or site condition issues.

Furthermore, the Authority has applied for approximately \$4.2 million of additional Federal Government grants to finance certain 2018-2022 CIP projects. However, no assurance can be given that the Authority will be awarded such Federal Government grants. To the extent the Authority does not have sufficient funds to finance the 2018-2022 CIP, the Authority will delay projects until alternative funds are available.

Competitive Considerations

With respect to transshipment containers, the Port does face some competition from other ports in its region that competitively price their cargo handling services. However, the Port has a large local market and is more likely than ports with small local markets to serve as a carrier's transshipment hub. In addition, the Port is the only one in its region that has the infrastructure (i.e., berth depth, storage yard) and equipment (i.e. quay cranes, container handlers) required to service container vessels with a capacity of up to 4,000 TEUs. Furthermore, transshipment containers have accounted for an average approximately 11% of annual containerized cargo revenue in the past five years. See "THE PORT—Carriers and Routes—*Competition*."

Potential Labor Activity

Pursuant to Title 4, Chapter 9, Section 9102 of the Guam Code Annotated, as amended, it is unlawful for any government employee to participate in any strike against the Government or any political subdivision thereof, including the Authority. The Authority has not experienced problems relating to labor disruptions. However, it is not possible to predict whether any job action or other labor disruption will occur, or how long such a disruption may last. A labor disruption could have a significant adverse impact on Port operations and revenues.

Guam YTK Litigation

The Authority is a defendant in a claim filed in 2012 by a former tenant of the Port, Guam YTK Corporation ("YTK"). The dispute was submitted to arbitration and in April 2016, the arbitrators issued a decision in favor of YTK and awarded YTK approximately \$14 million. The Authority has appealed the arbitration award to the Supreme Court of Guam (the "**Guam Supreme Court**") and oral arguments are scheduled for June 14, 2018. The Authority cannot predict the outcome of its appeal to the Guam Supreme Court. In the event that the Guam Supreme Court affirms the arbitration award, the resulting liability could have a material and adverse impact on the Port's financial position. In its orders dated April 27, 2017, within PAG Docket 17-01, the PUC ordered the Authority to return to the PUC for a rate investigation in the event the Authority loses its appeal of the arbitration award. For additional details, see "LITIGATION—Guam YTK Corporation Litigation."

Tenant/Customer Bankruptcy

A bankruptcy of a tenant or customer of the Port could result in delays, additional expense and/or reductions in payments, or even nonpayment, to the Port and thus a reduction in pledged Revenues. On the filing of a bankruptcy proceeding, Section 362 of the Bankruptcy Code stays virtually all creditor actions to litigate or collect on a debt, to terminate a contract, or to remove a non-paying tenant from possession. This can result in lengthy delays in the ability of a creditor to exercise its rights. Further, any payments made to the creditor within the 90 days (one year for “insiders”) before bankruptcy may be subject to recovery as preferential payments. A tenant or a customer of the Port that is in bankruptcy may be able to repudiate its lease or contract with the Port and stop performing under such lease or contract, or it may be able to assign its lease or contract to another entity (regardless of the terms of the lease or contract).

With respect to a tenant in bankruptcy proceedings in a foreign country, the Port is unable to predict what types of orders or relief could be issued by foreign bankruptcy tribunals, the effect thereof on the Port, or the extent to which any such orders would be enforceable in the United States.

Limitation of Rights Upon Insolvency

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) became law. Despite its name, PROMESA contains provisions relating to other U.S. territories, besides Puerto Rico. PROMESA defines a “territory” as (A) Puerto Rico, (B) Guam, (C) American Samoa, (D) the Commonwealth of the Northern Mariana Islands, and (E) the U.S. Virgin Islands. PROMESA establishes a financial oversight and management board only for Puerto Rico. The stated purpose of an oversight board is to “provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets.” There are provisions of PROMESA that contemplate that oversight boards could be established in the future for other territories, but PROMESA does not set forth a clear mechanism for doing so. It appears that action by Congress and the President would be required before an oversight board could be established for any other territory. An earlier version of the Congressional bill that became PROMESA included text providing that, except with respect to Puerto Rico, an oversight board “for a territory is established in accordance with this section only if the Legislature of the territory adopts a resolution signed by the Governor requesting the establishment.” That provision is not included in the final version of PROMESA.

An oversight board for a territory has the discretion to designate an instrumentality of the territory as subject to the provisions of PROMESA.

One of the powers that an oversight board can exercise is to file a petition in federal court that commences a case under PROMESA pursuant to which the territory or a designated instrumentality of the territory can adjust its debts. The territory or territorial instrumentality is not authorized to commence a case under PROMESA by itself. Before the oversight board files such a petition, the oversight board must determine that (i) the territory or territorial instrumentality has made good-faith efforts to reach a consensual restructuring with creditors, (ii) the territory or territorial instrumentality has (A) adopted procedures necessary to deliver timely audited financial statements and (B) made public draft financial statements and other information sufficient for any interested person to make an informed decision with respect to a possible restructuring, and (iii) the territory or territorial instrumentality has adopted a fiscal plan that has been certified by the oversight board.

While the provisions of PROMESA regarding adjustment of debts include some of the provisions found in the Bankruptcy Code, the provisions of PROMESA regarding adjustment of debts are not the same as the provisions of the Bankruptcy Code.

PROMESA also establishes an out-of-court process, pursuant to which bondholders and the territory or territorial instrumentality can agree, under the supervision of the oversight board, to modify the terms of bonds issued by the territory or territorial instrumentality. Any such modification must be approved by two-thirds of the principal amount of bonds that vote on the proposal. If the modification is approved by at least a two-thirds vote, the court has the power to enforce the modification against the bondholders who did not vote to approve it.

Cyber-Security

Computer networks and data transmission and collection are vital to the efficient operations of the Port. The Authority and the operators of facilities within the Port collect and store sensitive data, including intellectual property, security information, proprietary business information, information regarding customers, suppliers and business partners, and personally identifiable information of customers and employees. The secure processing, maintenance and transmission of this information is critical to industry operations. Despite security measures, information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise networks and the information stored there could be disrupted, accessed, publicly disclosed, lost or stolen. Any such disruption, access, disclosure or other loss of information could result in disruptions in the efficiency of commerce, legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruptions in operations and the services provided, and cause a loss of confidence in the commercial operations of industries including maritime operations, which could ultimately adversely affect Port revenues. The Authority plans to incorporate cyber-security policies into its standard operating procedures.

Environmental Compliance and Impact

The Port is required to comply with numerous federal and local laws and regulations designed to protect the human and natural environment, human health and safety, and to inform the public of important environmental issues and potential impacts of Port activities. The Port is also directly or indirectly affected by certain laws, regulations and local orders, including, without limitation, air quality regulations and storm water regulations. These laws are discussed under “PORT FINANCES—Environmental Compliance.”

The standards for required environmental impact review and for compliance under several local and federal laws and regulations are becoming more rigorous and complex. Permits issued to the Port under such laws and regulations may be frequently amended, often resulting in more stringent and more costly requirements and uncertainty about the scope of the Port’s future obligations and associated costs. While the Port is currently compliant with all environmental rules and regulations, it remains difficult to predict the long-term costs associated with adapting the Port’s existing and future infrastructure and facilities to new regulations.

These types of changes may result in increased compliance costs that, in turn, significantly delay or affect the Port’s efforts to maintain and repair existing infrastructure or to construct additional revenue-generating infrastructure. Additionally, the costs to mitigate environmental impacts, such as impacts to jurisdictional wetlands, obtain regulatory approvals, and manage potential legal or procedural challenges for such projects may result in substantial increases to total project costs and delays in completing the projects. Air quality regulations that directly or indirectly impact the Port may result in the Port’s having to, or desiring to, expend funds to assist the Port’s business partners in complying with various regulations. The Port may also incur costs to ensure its equipment complies with emission standards.

Costs associated with these compliance and related activities may consume an increasingly significant portion of the Port’s capital and operating budgets, and the Port may have unanticipated capital or operating expenditures. In addition, for projects with forecasted costs, the Port cannot provide assurances that the actual cost of the required measures will not exceed the forecasted amount. The Port also cannot provide assurances that the cost of compliance and related activities required of the Port and/or its business partners will not negatively affect Port operations and, therefore, Port revenues and/or expenses.

Additional environmental laws and regulations may be enacted and adopted in the future that could apply to the Port or its business partners, which could result in an adverse impact on projected revenues or expenses. The Port is not able to predict with certainty what those laws and regulations may be or the impacts to the Port or its business partners of compliance with such laws and regulations.

Also, certain individuals, organizations and/or regulatory agencies may seek other legal remedies to compel the Port to take further actions to mitigate perceived or identified environmental impacts and/or health hazards or to seek damages in connection with the potential environmental impacts of the Port’s activities.

Natural Disasters

Typhoons, earthquakes, tsunamis, and other disasters occur periodically on the island of Guam due to its geographic location. These events could temporarily incapacitate the Port and cause significant damage to the existing infrastructure, and interrupt the Port's stream of revenue. For example, heavy west swells sometimes make the harbor entrance dangerous for a period of several days when a typhoon is building up in the area and moving northwest. It is also possible that the Port could sustain significant damage to its facilities as a result of a major seismic event from ground motion and liquefaction of underlying soils or from a tsunami generated by local or distant seismic activity.

The Authority's facilities were designed to military standards and built to withstand the extremely high wind conditions caused by typhoons. Most of the Authority's facilities are constructed of 3,000 pounds per square inch concrete and 20,000 pounds per square inch reinforcement steel. New and renovated structures are designed or upgraded to comply with the current international building codes. In the event of a power failure, the Port has seven prime power generators to ensure continued operations, which are in load centers strategically located throughout its terminal container yard. In 2015, a six-foot high concrete barrier wall along the Port's northern boundary was installed by the Authority to provide protection against storm surges and debris entering the terminal during a storm event.

The Authority has reported prior property losses caused by storm and earthquake occurrences. The Port maintains a commercial property insurance policy with a coverage limit of \$55 million and a \$1 million deductible for each and every loss with respect to, among other natural disasters, earthquakes. The Port currently has no plans to obtain additional earthquake insurance, and may increase, reduce or eliminate its current commercial property insurance policy coverage in the future. Further, even for events that are covered by insurance, the Authority cannot guarantee that insurers will pay claims in a timely manner or at all. In addition, access to and from the Port's facilities and the Port's revenues could be adversely affected by seismic or other damage to infrastructure outside the Port, such as bridges, freeways, public transportation and rail lines.

Force Majeure Events

The Port's facilities and the Port's ability to generate revenues are at risk from events of force majeure, such as terrorism, strikes and lockouts, extreme weather events and other natural occurrences, fires and explosions, spills of hazardous substances, technology attacks, sabotage, wars, blockades, protests and riots. While the Authority has attempted to address the risk of loss from some of these occurrences through the purchase of commercial property and casualty insurance, certain of these events may not be covered. Further, even for events that are covered by insurance, the Authority cannot guarantee that insurers will pay claims in a timely manner or at all. From time to time, the Port may change the types and limits on the insurance coverage that it carries.

In June 2015, a fire caused more than \$2.0 million of damage to a portion of the Port's administration building. The administration building was refurbished using insurance proceeds without any significant operational and financial interruptions. To enhance Port efficiency and safety, a new administration building in a different location is part of the Authority's 2018-2022 CIP. See also "FINANCES—Risk Management and Insurance."

Sea-Level Rise

The Authority is unable to predict whether sea-level rise or other impacts of climate change will occur while the 2018 Bonds are outstanding. Any such events may have an adverse impact, material or otherwise, on Port facilities, revenues and/or expenses.

Enforceability of Remedies

The remedies available to the owners of the 2018 Bonds upon an Event of Default under the Indenture and the remedies available to the Port upon a default by one of its tenants or customers are in many respects dependent upon regulatory and judicial actions that are in many instances subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Indenture or under the Port's agreements with its tenants or customers may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the 2018 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the

2018 Bonds and the Indenture is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the enforcement of creditors' rights generally and by equitable remedies and proceedings generally.

Rate Covenant

The Authority has covenanted in the Indenture to at all times fix, prescribe and collect rates, fees and charges in connection with the services furnished by the Port which will be sufficient to yield the sum of Net Revenues Available for Debt Service during each Fiscal Year equal to at least the Debt Service Coverage Ratio and to yield Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required by the Indenture for such Fiscal Year, as described in (A) through (F) under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Allocation of Revenues." The Indenture provides that if, at the end of a Fiscal Year the sum of Net Revenues Available for Debt Service were less than the Debt Service Coverage Ratio, or if Revenues were less than the aggregate amount of all transfers required by the Indenture for such Fiscal Year, the Authority will promptly employ a Port Consultant to make recommendations as to a revision of such rates, fees and charges or the methods of operation of the Port (which recommendations will be provided within 90 days of such engagement), and will revise such rates, fees and charges or methods of operation and will take such other actions as will be in conformity with such recommendations.

However, the ability of the Authority to increase rates is subject to limitation, including review and approval by the PUC. Tariff rates are regulated by the PUC. Although the Authority expects to develop the 2022-2026 Tariff Adjustment Plan in Fiscal Year 2021, no assurance can be given that such tariff adjustment plan will be completed and approved by the PUC or that the rates approved by the PUC pursuant to such tariff adjustment plan will provide Revenues sufficient to operate and maintain the Port efficiently, to comply with regulatory requirements, to meet the Authority's financial obligations and to satisfy the applicable debt service coverage requirements. Although the PUC has historically approved rate adjustments requested by the Authority, no assurance can be given that the PUC will approve future rate adjustments requested by the Authority.

See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant" and "THE PORT—Tariff Rate Setting.

Legislation Regarding Transfers to Guam General Fund

Section 22421 of Chapter 22, Title 5, Guam Code Annotated, originally enacted by the Legislature in 1997 (the "**Transfer Legislation**"), requires the Authority, GPA and the Airport to collectively transfer an aggregate sum of \$3.5 million from operating surpluses generated by such agencies to the General Fund of the Government by the end of each fiscal year. Services provided by the General Fund include police and fire protection and provision and maintenance of road systems and other governmental facilities. The Transfer Legislation further provides that the proportionate contribution of each of the above agencies shall be determined by a formula decided upon by the Governor in consultation with the governing boards of each such agency. However, the Governor has never provided such a formula. Other than in 1997, when the Authority transferred \$3.5 million to the General Fund of the Government, the Authority has never transferred money to the General Fund pursuant to the Transfer Legislation. To the best of the Authority's knowledge, GPA and the Airport have never transferred money to the General Fund pursuant to the Transfer Legislation.

In 2011, the Government sent an invoice to the Authority requesting a total of \$12.25 million be transferred to the General Fund pursuant to the Transfer Legislation for years 1998 to 2011 (the "**2011 Invoice**"). In response to the invoice, the Authority sent a letter to the Government (the "**Response Letter**") outlining the reasons it believed it was entitled to an approximately \$16.0 million offset against the invoiced amounts including that (i) the Authority did not have an operating surplus, within the meaning of the Transfer Legislation, in several of the years invoiced, (ii) the Authority had previously transferred \$3.5 million to the General Fund, (iii) the Authority had previously transferred \$2.0 million to the Government for typhoon relief for which it has not been reimbursed; (iv) the Authority had provided facilities and/or services to the Government in several of the years invoiced for which it had not been compensated or reimbursed and (v) unlike GPA, the Authority had provided its own police force during the years invoiced. The Authority has not received any further invoices from the Government since the 2011 Invoice.

For the reasons provided in the Response Letter and because the Port's roads and facilities are maintained by Port revenues and/or federal funding, the Authority believes it is entitled to a continuing offset against any amounts that might be due pursuant to the Transfer Legislation. However, if the Authority were ever required to transfer a significant amount of funds pursuant to the Transfer Legislation, such transfers could result in a material adverse effect on the financial position of the Authority.

Potential Change in Law

The Port is subject to federal and local laws that restrict its operations. Such laws may be amended at any time. No assurance can be given that the Legislature will not enact legislation that will amend the laws or the Organic Act in a manner that results in an increase in Port expenses or a decrease in Port revenues, and, consequently, has an adverse effect on the security for the 2018 Bonds.

Other General Factors

The Port has been, and may in the future be, affected by a number of other factors which could impact the financial condition of the facilities and operations of the Port. In addition to the factors discussed elsewhere herein, such factors include, among other things:

- Effects of compliance with rapidly changing regulatory and legislative requirements relating to trade, environmental, safety and permitting;
- Compliance with applicable requirements, regulations and guidelines in connection with funding from federal or state agencies or other sources, including loans or grants, and the possibility of fines, withdrawal of funding or requirements to repay funding in cases of alleged non-compliance;
- Changes resulting from national policies affecting transportation, airline, trade and commerce (including tariffs and trade policy) and maritime matters;
- The repeal of certain federal statutes that would have the effect of decreasing federal funding or changing federal tax policy, including the ability to issue tax-exempt obligations;
- Effects of new technologies that could affect matters related to transportation and the delivery of services through the Port's facilities;
- Other legislative changes, voter initiatives, referenda and statewide propositions;
- Effects of changes in the economy, population and demand of customers for services delivered by the Port;
- Changes in financial condition due to changes in required contributions to fund pension or other-post employment retirement benefits;
- Acts of terrorism or cyberterrorism; and
- Natural disasters or other physical calamities, including but not limited to, earthquakes.

Any of these factors (as well as other factors) could have an adverse effect on the financial condition of the Port.

TAX MATTERS

2018 Series A Bonds and 2018 Series B Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2018 Series A Bonds and 2018 Series B Bonds (together, the “**2018 Series AB Bonds**”) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “**Code**”), except that no opinion is expressed as to the status of interest on any 2018 Series B Bond for any period that such 2018 Series B Bond is held by a “substantial user” of the facilities financed or refinanced by the 2018 Series B Bonds or by a “related person” within the meaning of Section 147(a) of the Code. Bond Counsel is of the further opinion that interest on the 2018 Series A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel observes, however, that interest on the 2018 Series B Bonds is a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under 48 U.S.C. Section 1423a, interest on the Series AB Bonds is exempt from taxation by the Government of Guam, or by any State or Territory of the United States or any political subdivision thereof, or by the District of Columbia. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2018 Series AB Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the 2018 Series AB Bonds is less than the amount to be paid at maturity of such 2018 Series AB Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2018 Series AB Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2018 Series AB Bonds which is excluded from gross income for federal income tax purposes and is exempt from taxation by any state or territory of the United States or any political subdivision thereof, or by the District of Columbia. For this purpose, the issue price of a particular maturity of the 2018 Series AB Bonds is the first price at which a substantial amount of such maturity of the 2018 Series AB Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2018 Series AB Bonds accrues daily over the term to maturity of such 2018 Series AB Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2018 Series AB Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2018 Series AB Bonds. Beneficial Owners of the 2018 Series AB Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2018 Series AB Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2018 Series AB Bonds in the original offering to the public at the first price at which a substantial amount of such 2018 Series AB Bonds is sold to the public.

2018 Series AB Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“**Premium Bonds**”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2018 Series AB Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2018 Series AB Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2018 Series AB Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2018 Series AB Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention

after the date of issuance of the 2018 Series AB Bonds may adversely affect the value of, or the tax status of interest on, the 2018 Series AB Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2018 Series AB Bonds is excluded from gross income for federal income tax purposes and, under 48 U.S.C. 1423a, is exempt from taxation by any State or Territory of the United States or any political subdivision thereof, or by the District of Columbia, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2018 Series AB Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2018 Series AB Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2018 Series AB Bonds. Prospective purchasers of the 2018 Series AB Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2018 Series AB Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2018 Series AB Bonds ends with the issuance of the 2018 Series AB Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the 2018 Series AB Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2018 Series AB Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2018 Series AB Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

2018 Series C Bonds

Bond Counsel observes that interest on the 2018 Series C Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the opinion that, under 48 U.S.C. Section 1423a, interest on the 2018 Series C Bonds is exempt from taxation by any State of the United States or any political subdivision thereof, or by the District of Columbia. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the 2018 Series C Bonds. The proposed form of opinion of Bond Counsel is contained in APPENDIX E hereto.

The following discussion summarizes certain U.S. federal income tax considerations generally applicable to U.S. Holders (as defined below) of the 2018 Series C Bonds that acquire their 2018 Series C Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax considerations discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing

rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their 2018 Series C Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the 2018 Series C Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their 2018 Series C Bonds pursuant to this offering for the issue price that is applicable to such 2018 Series C Bonds (i.e., the price at which a substantial amount of the 2018 Series C Bonds are sold to the public) and who will hold their 2018 Series C Bonds as “capital assets” within the meaning of Section 1221 of the Code. The following discussion does not address tax considerations applicable to any investors in the 2018 Series C Bonds other than investors that are U.S. Holders.

As used herein, “U.S. Holder” means a beneficial owner of a 2018 Series C Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). If a partnership holds 2018 Series C Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding 2018 Series C Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the 2018 Series C Bonds (including their status as U.S. Holders).

Notwithstanding the rules described below, it should be noted that, under newly enacted law that is effective for tax years beginning after December 31, 2017 (or, in the case of original issue discount, for tax years beginning after December 31, 2018), certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the 2018 Series C Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below.

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the 2018 Series C Bonds in light of their particular circumstances.

U.S. Holders

Interest. Interest on the 2018 Series C Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the 2018 Series C Bonds is less than the amount to be paid at maturity of such 2018 Series C Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2018 Series C Bonds) by more than a de minimis amount, the difference may constitute original issue discount (“**OID**”). U.S. Holders of 2018 Series C Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

2018 Series C Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a 2018 Series C Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such 2018 Series C Bond.

Sale or Other Taxable Disposition of the 2018 Series C Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a 2018 Series C Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a 2018 Series C Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the 2018 Series C Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the 2018 Series C Bond (generally, the purchase price paid by the U.S. Holder for the 2018 Series C Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such 2018 Series C Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the 2018 Series C Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the 2018 Series C Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Defeasance of the 2018 Series C Bonds. If the Authority defeases any 2018 Series C Bond, the 2018 Series C Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted tax basis in the 2018 Series C Bond.

Information Reporting and Backup Withholding. Payments on the 2018 Series C Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the 2018 Series C Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the 2018 Series C Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the 2018 Series C Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

Foreign Account Tax Compliance Act ("FATCA")

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under the 2018 Series C Bonds and sales proceeds of 2018 Series C Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to (i) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2018 and (ii) certain "passthru" payments no earlier than January 1, 2019. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of 2018 Series C Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors

as to any tax consequences to them from the purchase, ownership and disposition of 2018 Series C Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

CERTAIN LEGAL MATTERS

The issuance of the 2018 Bonds is subject to receipt of the approving opinion of Bond Counsel. The proposed form of opinion of Bond Counsel with respect to the 2018 Bonds is included in this Official Statement as APPENDIX E. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the Authority by The Law Offices of Phillips & Bordallo, P.C., general counsel for the Authority. Certain legal matters will be passed upon by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP.

LITIGATION

No Litigation Relating to 2018 Bonds

There is no litigation or proceeding pending or, to the knowledge of the Authority, threatened and having merit (either in Guam, state or Federal courts) seeking to restrain or enjoin the execution, issuance, sale or delivery of the 2018 Bonds or the collection, pledge or payment of Revenues by the Authority under the Indenture, or in any way contesting or affecting the legal existence of the Authority or the titles of certain relevant officials of the Authority to their offices or the validity or enforceability of the 2018 Bonds or the Indenture.

Guam YTK Corporation Litigation

On December 14, 2001, the Authority and Guam YTK Corporation entered into a development and lease agreement (the “**YTK Lease Agreement**”) for YTK to construct, develop, manage and operate a fisheries facility at the Port’s Hotel Wharf. The fisheries facility was never constructed. After a dispute arose between the parties with respect to the enforceability of the YTK Lease Agreement, YTK filed a Complaint to Compel Arbitration in October 2012 and a Motion to Compel Arbitration in November 2012. The Authority opposed YTK’s Motion to Compel Arbitration and on March 12, 2013, the Superior Court of Guam (the “**Guam Superior Court**”) ruled in favor of the Authority. The Guam Superior Court found the YTK Lease Agreement unenforceable and denied YTK’s Motion to Compel Arbitration on the basis that YTK’s claims were barred by the Authority’s sovereign immunity. YTK appealed to the Guam Supreme Court and on April 17, 2014, the Guam Supreme Court remanded the case to the Guam Superior Court to compel arbitration. The Guam Superior Court then ordered arbitration in July 2014; an arbitration hearing took place in January 2016 and the arbitrators issued a decision in favor of YTK (the “**Arbitration Decision**”) on April 4, 2016 (the “**Arbitration Decision Date**”). Pursuant to the Arbitration Decision, the arbitrators deemed the YTK Lease Agreement terminated effective as of the Arbitration Decision Date and awarded YTK (i) approximately \$12.7 million (which was determined to be the market value of the leasehold interest of the YTK Lease Agreement); (ii) interest of 10% per annum on the unpaid balance of the award amount from the Arbitration Decision Date; and (iii) approximately \$1.4 million in attorneys’ fees and costs. The Guam Superior Court issued a judgment confirming the Arbitration Decision in February 2017 (the “**Superior Court Judgment**”) but subsequently granted the Authority’s Motion for Stay Pending Appeal to the Guam Supreme Court in July 2017. The Authority has appealed the arbitration award to the Guam Supreme Court and oral arguments are scheduled for June 14, 2018.

Although the Authority believes that the Arbitration Decision is incorrect, the Authority cannot predict the outcome of the case before the Guam Supreme Court. In the event that the Guam Supreme Court affirms the Superior Court Judgment, the resulting liability could have a material and adverse impact on the Port’s financial position. In its orders dated April 27, 2017, within PAG Docket 17-01, the PUC ordered the Authority to return to the PUC for a rate investigation in the event the Authority loses its appeal of the arbitration award. Under Guam law, amounts awarded to YTK pursuant to the Arbitration Decision are not secured by any Port property or Port revenues. The Authority intends to vigorously defend itself against YTK’s claims and any unfavorable outcome from the Guam Supreme Court.

Other Litigation Relating to the Authority and the Port

Other than as disclosed elsewhere in this Official Statement, there are no pending claims or actions against the Authority arising from the operation and maintenance of the Port that, if determinations or settlements were made adverse to the Authority, would have, in the opinion of the Authority's counsel, a material adverse effect on the Authority's financial position.

RATINGS

Moody's Investors Service, Inc. ("**Moody's**") and S&P Global Ratings ("**S&P**") have assigned their ratings of "Baa2" and "A," respectively, to the 2018 Bonds. The ratings reflect only the view of the rating agencies assigning such ratings at the time such ratings are given, and the Authority makes no representations as to the appropriateness of such ratings. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Certain information and materials not included in this Official Statement were furnished to the rating agencies concerning the 2018 Bonds. Generally, rating agencies base their ratings on such information and materials and on investigation, studies and assumptions by the rating agencies. There is no assurance that the ratings mentioned above will remain for any given period of time or that any or all of them might not be lowered or withdrawn entirely by any rating agency if in the judgment of any or all rating agencies, circumstances so warrant. Any such downward change in or withdrawal of such ratings might have an adverse effect on the market price for and marketability of the 2018 Bonds.

UNDERWRITING

The 2018 Bonds are to be purchased from the Authority by Citigroup Global Markets Inc. (the "**Representative**") and RBC Capital Markets, LLC (collectively, the "**Underwriters**") pursuant to the terms of a Bond Purchase Agreement (the "**Bond Purchase Agreement**") between the Representative and the Authority. The purchase price of the 2018 Bonds is \$_____, representing the aggregate principal amount of the 2018 Bonds (\$_____.__), [plus/less] [net] original issue [premium/discount] of \$_____. and less Underwriters' discount of \$_____. The Bond Purchase Agreement provides that the Underwriters will purchase all of the 2018 Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval by counsel of certain legal matters.

The Underwriters reserve the right to join with dealers and other Underwriters in offering the 2018 Bonds to the public. The Underwriters intend to offer the 2018 Bonds for sale at the prices or yields set forth on the inside cover page hereof. Such initial public offering prices or yields may be changed from time to time by the Underwriters without prior notice. The Underwriters may offer and sell the 2018 Bonds to certain dealers, unit investment trusts or money market funds at prices lower than or at yields higher than the public offering prices or yields stated on the inside front cover page.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

CONTINUING DISCLOSURE

In connection with the issuance of the 2018 Bonds, the Authority will execute a Continuing Disclosure Agreement (the “**Continuing Disclosure Agreement**”), which provides for disclosure obligations on the part of the Authority. Under the Continuing Disclosure Agreement, the Authority will covenant for the benefit of the owners and Beneficial Owners of the 2018 Bonds to provide financial information and operating data (each, an “**Annual Report**”) by not later than 270 days following the end of its Fiscal Year (currently September 30), commencing with the report for Fiscal Year 2018, and to provide notices of the occurrence of certain enumerated events. The Authority or its dissemination agent is required to file Annual Reports and notices of enumerated events with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. These covenants have been made in order to assist the Underwriters in complying with the Rule. The Continuing Disclosure Agreement is the Authority’s first undertaking to provide continuing disclosure in connection with the Rule. See “APPENDIX F—PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT.”

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Years 2017 and 2016 have been audited by Deloitte & Touche LLP, independent auditors. The financial statements include an “Emphasis of Matters” section regarding the litigation involving the Authority and YTK (see also Note 8 to the financial statements and “LITIGATION—Guam YTK Corporation Litigation”) and the adoption of GASB 73 (see also Note 1 to the financial statements and also “FINANCES—Pension and Other Post-Retirement Benefit Plans—*GASB 73*”). Reference should be made to the audited financial statements included in APPENDIX C for a complete understanding of the information provided therein.

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MISCELLANEOUS

The attached Appendices are integral parts of this Official Statement and should be read in their entirety. The Authority has reviewed the information contained herein and has approved all such information for use in this Official Statement.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

PORT AUTHORITY OF GUAM

By: _____
General Manager

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APPENDIX A
CONSULTING ENGINEER'S REPORT

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Jose D. Leon Guerrero Commercial Port of Guam 2018 Consulting Engineer's Report



FINAL
June 12, 2018

Prepared for



Submitted pursuant to Consultant Agreement No. PAG 015-003 between Jose D. Leon Guerrero Commercial Port (Port Authority of Guam) and WSP (formerly Parsons Brinckerhoff) acting as the Owner's Agent and Engineer.

Prepared by



(formerly Parsons Brinckerhoff)

In association with:



This report was prepared under contract with the Port Authority of Guam, with financial support from the Office of Economic Adjustment, Department of Defense. The content reflects the views of the Port Authority of Guam and does not necessarily reflect the views of the Office of Economic Adjustment.

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List of Acronyms

AFB	Air Force Base
ANZ	Australia and New Zealand <i>Banking Group</i>
APR	Air Power Resiliency
APL	American President Lines
BIG	Boating Infrastructure Grant
CAGR	Compound annual growth rate
CBP	Customs and Border Protection
CFADS	Cash Flow Available to pay Debt Service
CFS	Container freight station
CIP	Capital Improvement Plan
CNMI	Commonwealth of the Northern Mariana Islands
CO	Crane Operating <i>Account</i>
CPI	Consumer price index
CR	Crane Reserve <i>Account</i>
CY	Calendar Year
DESA	Department of Economic and Social Affairs
DHS	Department of Homeland Security
DOD	Department of Defense
DOI	Department of Interior
DOT	Department of Transportation
DPRI	Defense Policy Review Initiative
DSCR	Debt service coverage ratio
EQMR	Equipment maintenance and repair <i>building</i>
FMF	Facility Maintenance Fee
FSM	Federated States of Micronesia
FY	Fiscal Year
FTE	Full-Time Equivalent
GASB	Governmental Accounting Standards Board
GCPI	Guam Commercial Port Improvement <i>DOD Program</i>
GDOE	Guam Department of Education
GDP	Gross Domestic Product
GEDA	Guam Economic Development Authority
GOS	Gate Operating System
GPA	Guam Power Authority
GSWA	Guam Solid Waste Authority
GWA	Guam Water Authority
GVB	Guam Visitors Bureau
IDB	International Data Base
ISPS	International Ship and Port Facility Security
JGPO	Joint Guam Program Office
LOA	Length Overall

LPG	Liquefied Petroleum Gas
M&R	Maintenance and Repair
MELL.....	Marianas Express Lines Limited
MICE	Meetings, Incentives, Conventions and Exhibitions <i>Visa Free Program</i>
MPH	Miles per hour
MSP	Maritime Security Program
MT	Metric Tons
NDAA.....	National Defense Authorization Act
nm	nautical miles
OCR	Optical character recognition
OEA.....	Office of Economic Adjustment
OIA.....	Office of Insular Affairs
OICC.....	Officer in Charge of Construction
O&M.....	Operation and Maintenance
PFSP	Port Facility Security Plan
PL.....	Public Law
psf	pounds per square foot
psi	pounds per square inch
PUC	Public Utilities Commission
RFID.....	radio frequency identification
RMI.....	Republic of the Marshall Islands
Ro/Ro	Roll-on / Roll-off
RPM.....	Radiation Portal Monitor
R&R	Replacement and Renewal
RTG.....	Rubber Tire Gantry <i>Crane</i>
SEIS.....	Supplemental Environmental Impact Statement
sf.....	square foot
SLE	Service Life Extension
SPPC	South Pacific Petroleum Corporation
STS.....	Ship-to-Shore <i>Gantry Crane</i>
TEU	Twenty-foot Equivalency Unit
TIGER.....	Transportation Investment Generating Economic Recovery <i>Grant</i>
TGS	Twenty-foot Ground Slot
TOS	Terminal Operating System
TWIC.....	Transportation Worker Identification Credential
UBC.....	Uniform Building Code
UN	United Nations
USCB	U.S. Census Bureau
USCG	U.S. Coast Guard
USCIS	U.S. Citizenship and Immigration Services
USDA	U.S. Department of Agriculture
VWP.....	Visa Waiver Program
WPP.....	World Population Prospects

SECTION 1. INTRODUCTION

Guam is the westernmost territory of the United States (U.S.) and the largest and southernmost island of the Marianas archipelago. Guam is approximately 3,300 nautical miles (nm) west-southwest of Hawaii, 1,360 nm south-southeast of Tokyo, 1,495 nm south-southeast of Taiwan and 1,385 nm east of Manila, Philippines, as shown in Figure 1-1.

Figure 1-1: Location of the Island of Guam



Source: WSP

The Port Authority of Guam (the “Authority”) operates the Jose D. Leon Guerrero Commercial Port of Guam (“Commercial Port” or “Port”) and has administrative jurisdiction over the Government of Guam’s (“the Government”) land, infrastructure and facilities on Cabras Island, where the Port is located. The Port consists of a cargo terminal, industrial terminal, six cargo handling berths, cargo handling equipment, and numerous support buildings and facilities. The Port offers deep-draft waterfront access and landside support services for container, breakbulk, fishing, recreational, industrial and cruise operations.

The Authority also operates and manages two public marinas, the Agat Marina in the southern municipality of Agat and the Gregorio D. Perez Marina in Guam’s capital city Hagåtña. All of the Authority’s properties are located on the west coast of Guam as shown in yellow in Figure 1-2.

Figure 1-2 : Location of the Authority's Properties on Guam

Source: WSP

1.1. PURPOSE AND SCOPE OF REPORT

This Consulting Engineer's Report (the "Report") is provided for inclusion in the Official Statement attendant the proposal by the Authority to issue its Port System Revenue Bonds, 2018 Series A, 2018 Series B, and 2018 Series C (collectively, the "2018 Bonds").

The primary purposes of the Report are to present a summary of the Authority's existing infrastructure, major equipment assets, operations, capacities, and projected demand and

resulting cash flows within the five-year planning horizon. As such, this Report includes the following elements:

- Context of Guam's government, population, economy and military significance
- Summary of the Authority's location, assets and tenants
- Cargo trends and projected demand for annual throughput at the Port
- Synopsis of the major projects anticipated to be completed by the Authority in the next five years, including projects financed with proceeds of the 2018 Bonds
- Projected operating revenue and expenses, and cash flows of the Authority

As the Consulting Engineer, WSP (formerly Parsons Brinckerhoff) prepared cargo throughput projections and a resulting multi-year pro forma forecast of the Authority's revenues and expenses from FY 2018 to FY 2022. The forecasts were based on a review of the Authority's assets, business and financial records, and operational and maintenance practices, and are supported by capital and operational projections provided by the Authority. All financing terms were provided to WSP by the Guam Economic Development Authority (GEDA) and/or the Authority's bond issuance team. During the course of the analysis, WSP interviewed the Authority's personnel as well as customers of the Port. WSP's prior and ongoing services to the Authority include providing technical support in the areas of engineering and planning services, program management, financial analysis and other related services, as the Port Owner's Agent/Engineer over the past 11 years. WSP has also assisted in the development of the Authority's Master Plans in 2007 and 2013.

The GEDA serves as the central financial manager and consultant for the Government and those agencies or instrumentalities of the Government requiring financial guidance and assistance. The GEDA assisted in the preparation of this Report by providing certain economic and demographic information.

Disclaimer and Limitations

Prospective purchasers of the 2018 Bonds must be advised that this Report does not contemplate any matters subsequent to the date of its issuance. Changing conditions or information occurring or becoming known after such date could affect the information presented herein. This Report reflects and relies upon the information provided and available to WSP up to the time of this review.

WSP has relied on information or instructions provided by the Authority and other parties and, unless otherwise expressly indicated, has made no independent investigation as to the validity, completeness or accuracy of such information.

The forward-looking statements contained in this Report include estimated projections of future cargo volumes, prospective capital expenses, and future economic performance of the Authority relating to its infrastructure assets and services. The forward-looking statements are subject to risks and uncertainties, and actual results could differ substantially. The use of or reliance on the information in this Report is at the sole risk of the user.

1.2. BACKGROUND

As the only commercial port on the island of Guam, Guam's citizens depend on the Port to provide essential goods, most notably food products, building materials, and fuel. In addition, the U.S. military relies on the Port to handle nearly all the military cargo and equipment moving in and out of Guam. Currently, more than 90 percent of the total volume of goods and supplies needed to support activities on Guam flows through the Port. Approximately 30 percent of total cargo moving through the Port is military related.

Since its construction in 1969, the Port had remained largely unchanged until 2008. Initiated by the *2007 Master Plan*, the Authority began to modernize its facilities to address the forecasted increase in cargo to support a growing population and tourism industry, as well as anticipated military population growth, in Guam and throughout the Micronesian region.

The *2007 Master Plan* was prepared against a backdrop of a U.S. Department of Defense (DOD) realignment of Marines from Okinawa, Japan to Guam (the "military build-up"), which was subsequently delayed, reevaluated, and reduced in scope. In 2012, the current military build-up was approved, occurring over a 13-year period with a gradual population increase of approximately 5 percent. During this period, 5,000 Marines and 1,300 dependents are to be relocated to Guam, with an expected peak of approximately 10,000 additional military and temporary construction personnel in 2022/2023. Actual work on the military build-up began in 2016. Refer to Section 2.3 for further details.

In light of changes to the military build-up, the Authority set its focus on updating its master plan in late 2012, focusing on phasing of Port improvements, budget allocation, and investment priorities. The *2013 Master Plan* included strategic recommendations, a high-level implementation plan, and a feasibility assessment, from which the following were recommended:

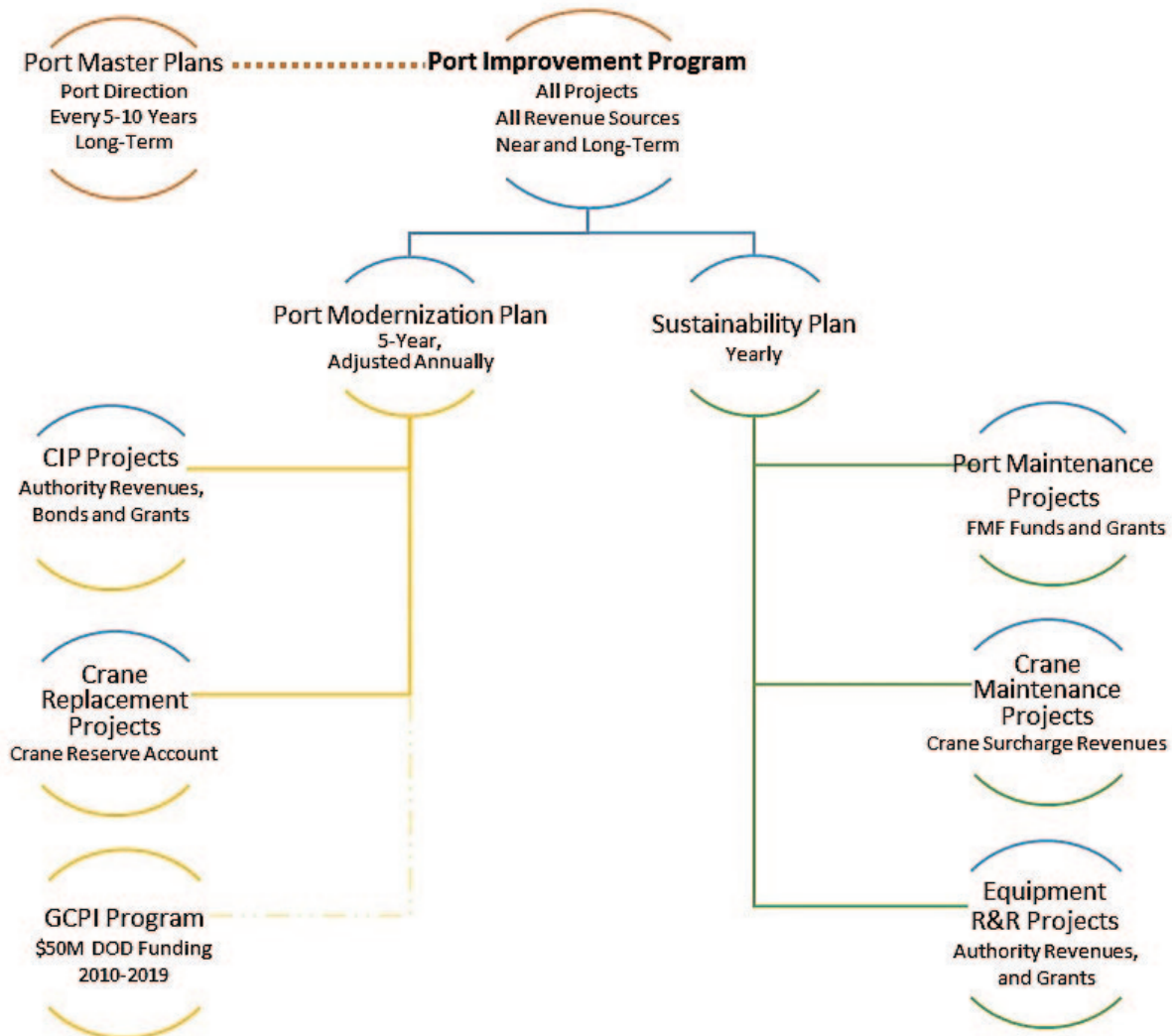
- 5-year near-term improvements to increase Port efficiency and create additional cargo handling capacity to accommodate the military build-up;
- 20-year long-term focus on additional improvements targeted towards continuing operational and economic sustainability in an organic growth scenario;
- Increased economic self-sufficiency through tariff adjustments to enhance Port opportunities, while continuing to receive complementary or partnering federal assistance (e.g. grants with matching requirements); and
- Consider issuing bonds to support port improvements.

Based on the *2013 Master Plan*, the Authority implemented a formalized Port Improvement Program (PIP), which designated projects into the following two categories:

- 1) Port Modernization Plan: 5-year Capital Improvement Plan (CIP) projects; crane replacement projects funded from the Crane Reserve Account (the "CR Account"); and the Guam Commercial Port Improvement (GCPI) Program projects.
- 2) Sustainability Plan: Port maintenance projects primarily funded with the Facility Maintenance Fee (FMF) revenues; crane maintenance projects funded from the crane surcharge revenues; and equipment replacement and renewal (R&R) projects.

The details of the Authority's PIP and related plans and projects are depicted in Figure 1-3.

Figure 1-3 : The Authority's Improvement Program and Plans



Source: WSP and the Authority

The DOD provided \$50 million to the Authority in 2010 to implement the GCPI Program. The program was fully-funded by the DOD to increase Port efficiency and create additional cargo handling areas to accommodate the military build-up, as recommended in the 2007 and 2013 Master Plans. The majority of the GCPI Program was completed in 2015, with only \$2.6 million remaining for cargo handling equipment and final construction modifications to be completed by October 2019. *With the completion of the GCPI Program projects in 2015, the Port's cargo handling facilities have surplus capacity to accommodate the forecasted cargo from an increasing population and tourism industry as well as the military build-up.*

Port improvements from the *2007 and 2013 Master Plans* that remain to be completed include CIP and crane replacement projects driven by the Port Modernization Plan, which may be subject to future events and conditions, and Sustainability Plan projects driven by continual Port operations. As part of the Fiscal Year¹ (FY) 2018 Budget, the Authority's Board of Directors approved CIP projects from FY 2018 to FY 2022, a crane replacement project and Sustainability Plan projects that are part of the updated PIP. Refer to Section 5 of this Report for further details.

1.3. THE AUTHORITY'S HISTORY AND GOVERNANCE

The Authority was established by Public Law (PL) 13-87, passed in 1975, as a legal public corporation and an autonomous agency of the Government. The Authority is mandated to provide for the needs of ocean commerce, shipping, recreational, and commercial/boating, as well as navigation of Guam. The Authority is responsible for the development and/or operation of recreational boating facilities, public harbors, small boat marinas and other associated marine facilities in Guam.

The Authority's activities are administered by a Board of Directors (the "Authority Board") comprised of five non-salaried members, appointed for staggered three-year terms by the Governor of Guam ("the Governor") with the consent and advice of the Legislature of Guam ("the Legislature"). The Authority Board has decision-making authority over the Authority's management strategy, direction, development, construction, and operations, including the operating and financial budgets.

The Legislature approves the Authority's long-term leases (5+ years), approves and adopts the Port's master plans, authorizes the transfer of property under the jurisdiction of the Authority, and authorizes the issuance of Port debt through Public Law.

The Authority has no taxing powers. Its debts and operating costs are paid out of tariff charges, fees, and other revenues from its facilities. The Authority usually raises capital funds for construction projects by pledging its own credit through various debt instruments. Prior to the 2018 Bonds, the Authority's debt instruments were bank loans, which will all be retired upon the issuance of the 2018 Bonds.

In 2009, the Authority was placed under regulatory oversight of the Guam Public Utilities Commission (PUC) by PL 30-52. This law gave the PUC sole authority to approve the Authority's tariff adjustment petitions. The PUC's supervision is intended to support the Authority in effectively adjusting its tariffs to cover the cost of Port operations and to generate revenues for capital improvements.

The PUC is an independent regulatory commission created in 1984. It serves as a regulatory rate governing body for other Guam public service agencies including the Guam Waterworks

¹ The financial budget and reporting period, or fiscal year, for both the Authority and the U.S. Government is the 12-month period starting October 1 and ending September 30 of the following calendar year.

Authority (GWA), Guam Power Authority (GPA) and Guam Solid Waste Authority (GSWA). The PUC is comprised of seven commissioners who serve staggered six-year terms. Each of the commissioners is appointed by the Governor and confirmed by the Legislature.

Prior to the PUC's oversight, the Authority had limited success during the previous 16 years in receiving public and/or legislative approval of tariff rate adjustments. Since the PUC was given oversight of the Authority's tariff adjustments, the Authority has successfully implemented all seven of its proposed tariff increases. The PUC has accepted all the Authority's petitions to increase its rates and approved the full amount of each request, as described further in Section 6.2 of this Report. In addition to supporting and approving the Authority's tariff adjustments, the PUC, as well as the Authority Board, approves the Authority's issuance of bonds such as the 2018 Bonds.

1.4. MANAGEMENT AND STAFF

The Authority Board's policy decisions are carried out by a General Manager, Deputy General Managers and other Authority staff. The General Manager, under the general direction of the Authority Board, serves as Chief Executive Officer for the Authority. The General Manager has charge and control of the planning, organization, staffing, direction and coordination of the Port's operations and business affairs. The General Manager is hired and employed at the pleasure of the Authority Board.

The Deputy General Manager of Operations and the Deputy General Manager of Finance are under the general supervision of the General Manager. In the absence of the General Manager, either of the Deputy General Managers serve as Acting General Manager. The positions are hired and employed under the terms and conditions fixed by and at the pleasure of the Authority Board.

The Authority has averaged 353 employees annually over the past five years and, as of March 2018, is staffed at 356 FTE employees. The Port is organized into three operating divisions (Stevedoring, Terminal, and Transportation) and two maintenance divisions (Equipment Maintenance and Facility Maintenance). These divisions are assisted by 12 support divisions (Harbor Master, Port Police, Occupational Health and Safety, Strategic Planning, Marketing, Human Resources, Finance, Commercial, Engineering, Procurement and Supply, Information Technology, and General Administration).

1.5. PURPOSE OF 2018 BONDS

While the Port now benefits from expanded facilities and upgraded equipment, the Authority remains committed to continuing to improve Port facilities to support its long-term sustainability. The Authority is issuing a portion of the 2018 Bonds to fund all or a portion of the following CIP projects:

- Hotel Wharf and Access Road Revitalization and Upgrades (Authority funding to match a federal Transportation Investment Generating Economic Recovery (TIGER) discretionary grant)

- Golf Pier Repairs and Improvements
- New Administration Building
- Warehouse I Repairs and Upgrades
- Equipment Maintenance & Repair (EQMR) Building Repairs and Upgrades
- Waterline Replacement and Relocation

A detailed description of each of these projects and other CIP projects is provided in Section 5.2 of this Report. While the Authority's revenues are not dependent on the completion of these projects, they will support the Authority's goal to maintain its facilities in a state of good repair and support future cargo operations.

The Authority is also issuing the 2018 Bonds to refinance certain existing loans for debt service savings.

SECTION 2. PROFILE OF GUAM

Guam is located in the western Pacific Ocean and is the largest of the 2,000 islands in Micronesia. The island is 32 miles long, varying from 12 to 4 miles wide, with a total land area of approximately 212 square miles. Guam links the expanding Far East market, the U.S. and the rest of the world with the Western Pacific islands; including the Commonwealth of the Northern Mariana Islands (CNMI) of Saipan, Tinian, Rota and other smaller islands; Republic of Palau; the Federated States of Micronesia (FSM) of Yap, Chuuk, Pohnpei and Kosrae; and the Republic of the Marshall Islands (RMI) including Majuro, Ebeye, and Kwajalein (refer to Figure 2-1).

Figure 2-1: Western Pacific Region Islands



Source: WSP

2.1. GOVERNANCE

Guam was ceded to the U.S. in 1898 under the Treaty of Paris and has remained under U.S. administration, except for two and a half years of Japanese occupation during World War II. U.S. forces recaptured Guam in 1944 and reestablished a naval government. In 1950, the U.S. Congress passed the Organic Act of Guam granting the indigenous Chamorro people U.S. citizenship and establishing a civilian government.

Guam is an unincorporated and organized territory of the U.S., governed by the Government. The organization and powers of the Government are determined by the Organic Act. The Government consists of three branches: executive, legislative and judicial. A governor elected at large every four years heads the executive branch. The unicameral Legislature consists of a Senate with 15 senators elected at large every two years. The judiciary branch consists of the Superior Court of Guam, which is the court of general trial jurisdiction, and the Supreme Court of Guam, the court of highest appeal. Guam also has a Federal District Court and is within the jurisdiction of the Ninth Circuit U.S. Court of Appeals and the U.S. Supreme Court. Guam has

one elected non-voting representative to the U.S. House of Representatives elected at large every two years.

In some cases U.S. federal laws do not apply to Guam. For example, U.S. import tariff laws do not apply, and Guam is considered to be a duty-free port. However, federal banking and transportation laws and regulations apply to Guam, with some exemptions, to address Guam's unique political, geographical, and social circumstances.

Although Guam receives no foreign aid, it does receive large transfer payments from the general revenues of the U.S. Treasury into which local residents do not pay income or excise taxes. Under the provisions of a special law of Congress, the Guam Treasury, rather than the U.S. Treasury, receives the income taxes paid by Guam's residents, as well as federal income taxes paid by military and civilian Federal employees stationed in Guam.

2.2. POPULATION

Guam's historical population statistics were obtained from the U.S. Census Bureau's (USCB) decennial censuses from 1970 to 2010. Table 2-1 shows Guam's population and percent growth over the past five decades, as well as a 2018 estimate. As data from the censuses show, Guam continues to gain population; however, the rate of growth has decreased over the past decade.

The USCB provides population estimates and projections of Guam in partnership with the Government that are made available through the USCB International Data Base (IDB). The population estimates are provided for the years between each decennial census, and generally use existing data collected from various sources. The USCB estimates that Guam's population in 2018 is approximately 167,800 persons.

Table 2-1: Guam's Historical Population

Year	1970	1980	1990	2000	2010	2018 Est.
Guam Population	84,996	105,979	133,152	154,805	159,358	167,800
% Growth from Previous Census	26.8%	24.7%	25.6%	16.3%	2.9%	NA

Source: U.S. Census Bureau, August 2017

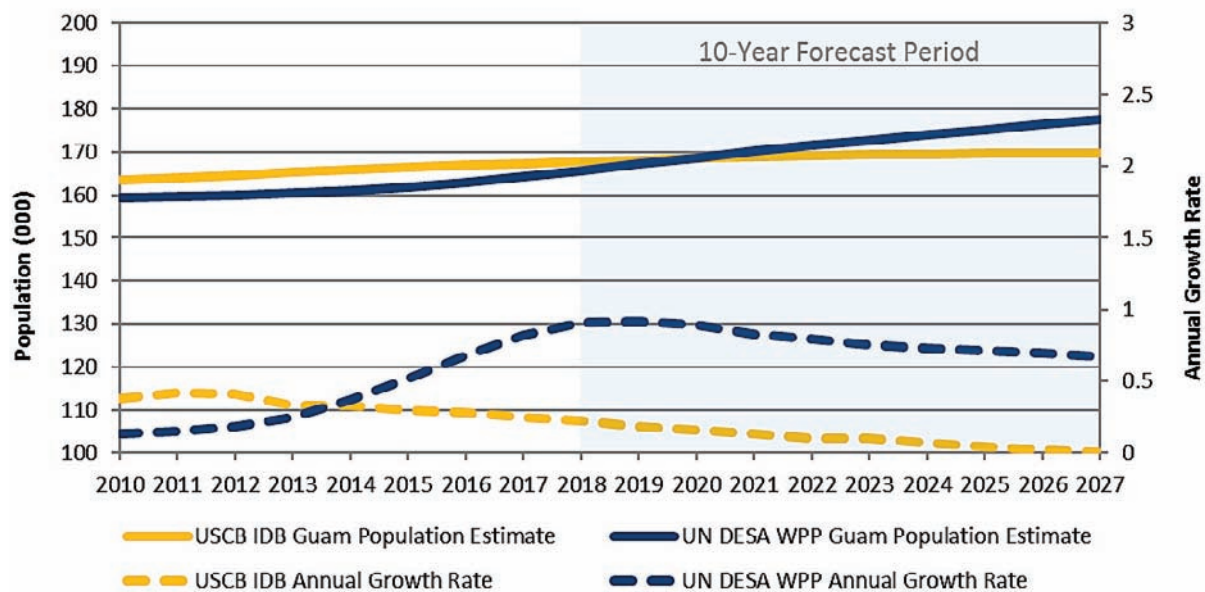
Population projections are provided by the USCB IDB for each year beyond the base census year for a 40-year forecast period. The base population is advanced each year by using projected fertility and survival rates and net international migration. The projections do not take into account the impacts of the forecasted military build-up. According to population projections from the USCB IDB, Guam will continue to gain population at an average compound annual growth rate (CAGR) of 0.13 percent over the next 10 years, reaching a projected population of approximately 170,000 in 2027.

The United Nations (UN), Department of Economic and Social Affairs (DESA), Population Division also provides projections of Guam's yearly population based on estimated average annual percent change in the population, resulting from a surplus (or deficit) of births over

deaths and the balance of migrants entering and leaving a country. The UN DESA, Population Division estimates that Guam's population in 2018 is approximately 166,000 based on the medium-fertility variant. According to the 2017 Revision of *World Population Prospects* (WPP) prepared by UN DESA, Population Division, Guam's projected population will grow at an average CAGR of 0.78 percent, reaching 178,000 in 2027.

Figure 2-2 displays Guam's historical estimated population and growth rates for 2010 through 2017 and projected population and CAGR from 2018 to 2027 presented by both the USCB and UN DESA Population Division. The growth rates do not reflect the military build-up on Guam. These population growth rates are considered in the computation of the Base Case forecast of the Port's cargo growth presented in Section 4.2 of this Report.

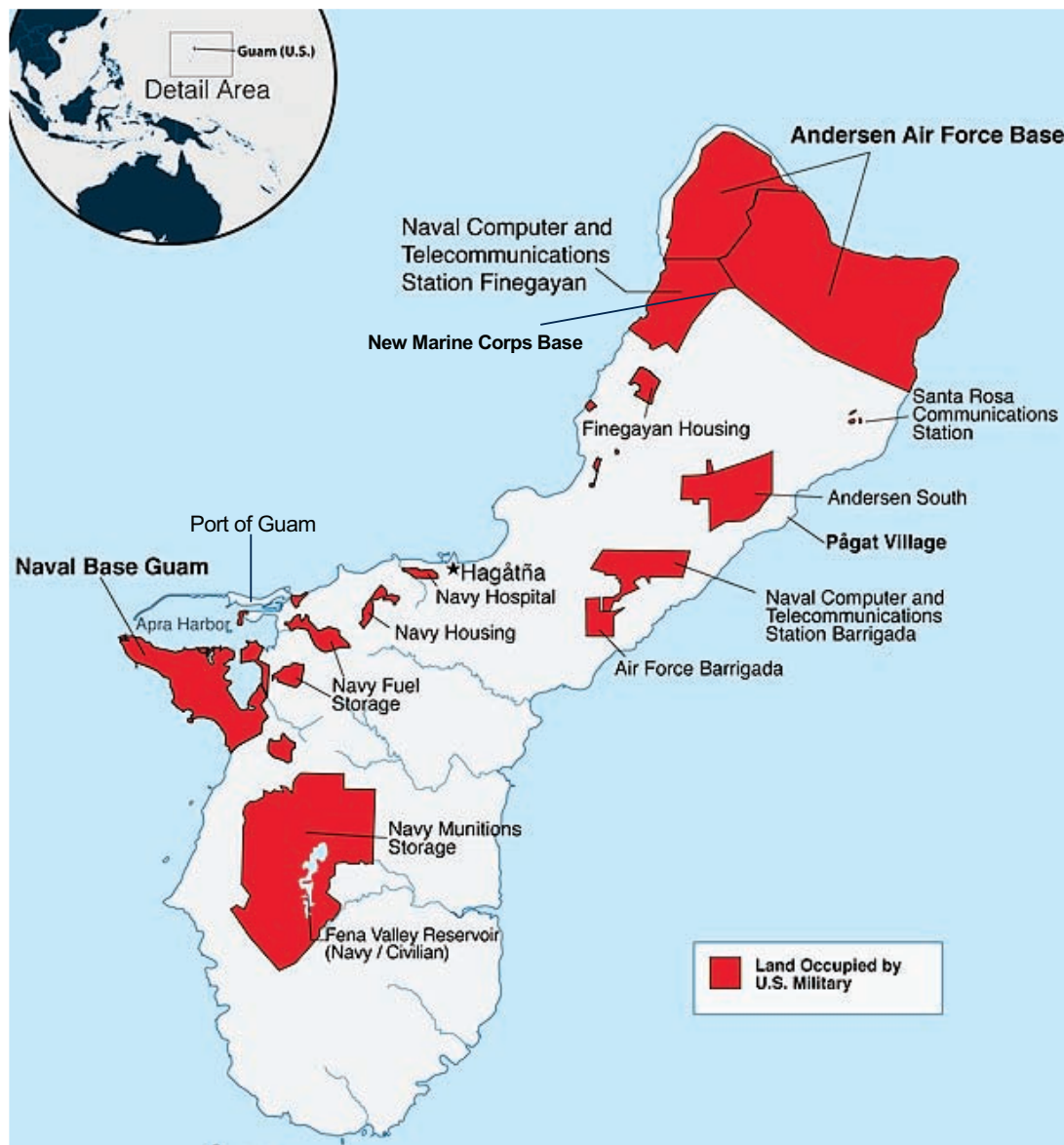
Figure 2-2: Guam's Estimated and Projected Population and Growth Rates



Source: U.S. Census Bureau IDB; UN DESA Population Division WPP

2.3. MILITARY PRESENCE AND BUILD-UP

Guam has a large U.S. military presence, which includes Navy and Air Force bases that occupy nearly 30 percent of Guam's land mass. These military installations are strategically significant U.S. bases in the Pacific. The Joint Region Marianas, which includes Naval Base Guam and Andersen Air Force Base (AFB) shown on Figure 2-3, is home of Commander Naval Forces Marianas, Commander Submarine Squadron Fifteen, U.S. Coast Guard (USCG) Sector Guam, and Naval Special Warfare Unit One. The Joint Region Marianas supports 28 other tenant commands and is the home base of three Los Angeles class submarines and dozens of units operating in support of U.S. Pacific Command, U.S. Pacific Fleet, Seventh Fleet and Fifth Fleet.

Figure 2-3: Map of U.S. Military Bases in Guam

Source: U.S. Navy, map designed by Johnny Harris, <http://www.basenation.us/maps.html>

In the late 1980s, the military population including dependents exceeded 20,000 in Guam, representing approximately 18 percent of Guam's population. The military's presence decreased to approximately 11,000 from 2000 to 2004, before increasing to its current level of approximately 12,800 active duty personnel and their dependents, which represents approximately 7.9 percent of the resident population.

Since 2006, the DOD has been planning to realign its military forces in the Asia-Pacific region, which involves the relocation of a sizeable contingent of marines to Guam primarily from facilities in Okinawa, Japan. In April 2014, President Obama issued a U.S.-Japan Joint Statement

indicating that “the U.S. and Japan are also making sustained progress towards realizing a geographically distributed, operationally resilient, and politically sustainable U.S. force posture in the Asia Pacific, including the development of Guam as a strategic hub.”

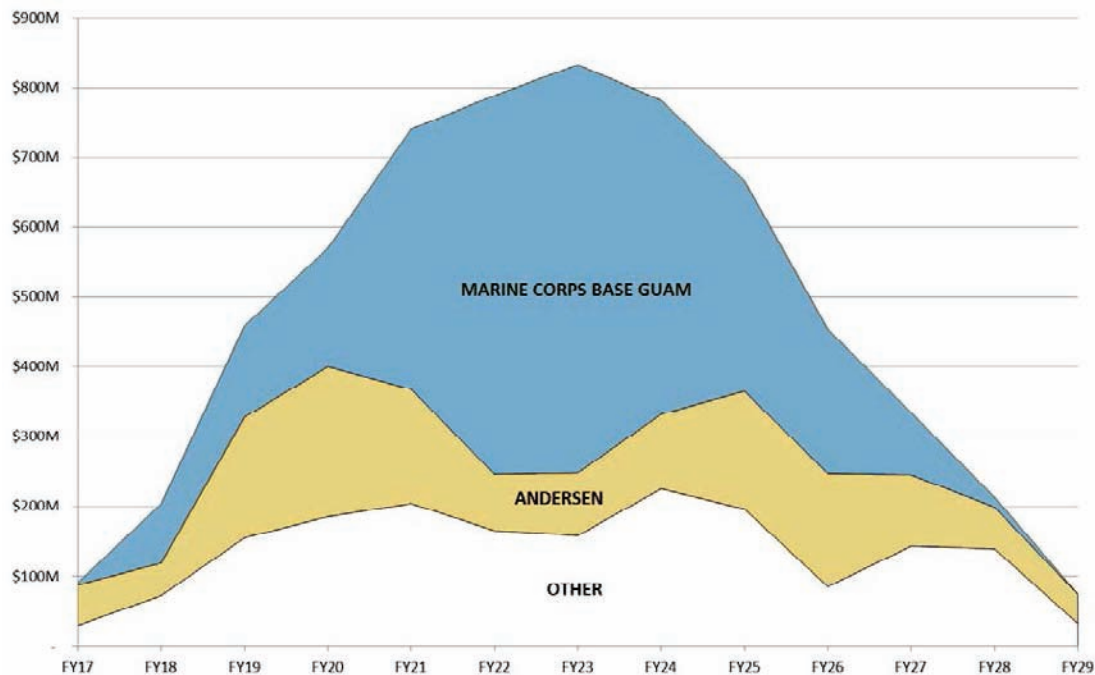
The Guam and CNMI Military Relocation (per the *2012 Roadmap Adjustments*) relocates approximately 5,000 marines and 1,300 dependents from Okinawa, Japan and other locations to Guam by 2026. The first 2,500 marines would move to a new Marine Corps base in Guam in 2022. The realignment, or military build-up on Guam, would result in an approximate 5 percent increase to Guam's current population.

According to the *Final Supplemental Environmental Impact Statement (SEIS)* prepared for the Joint Guam Program Office (JGPO) in July 2015, the Marine base will be built on existing federal land in Finegayan, Dededo, near Andersen AFB (refer to Figure 2-3). The Marines' family housing units will be developed within the fence at Andersen AFB. In addition to a Fire Training Range Complex to be constructed at Northwest Field on Anderson AFB, training ranges are planned to be constructed on CNMI, specifically the islands of Tinian and Pagan, per the GAO Report *Marine Corps Asia Pacific Realignment* released in April 2017.

Over the past eight years, the U.S. Government (the “Federal Government”) defense spending on Guam has averaged approximately \$300 million per year. The DOD estimates the Guam military build-up and the training facilities on CNMI will cost approximately \$8.6 billion in FY 2012 dollars, expended over a 13-year period. Per the Guam Program Management Office, nine construction projects totaling \$510 million have been completed, eight projects totaling \$495 million have been awarded or are underway, and six projects totaling approximately \$2.64 billion are in solicitation as of February 2018.

According to the GAO Report, the Marine Corps will increase the number of construction projects each year until FY 2023 when it will peak at 43 active construction projects. As shown in Figure 2-4, the DOD construction program for the Marine Corps build-up in Guam continues to FY 2029. However, the estimated construction schedule could be impacted by Federal Government actions, cultural-artifact discovery and preservation, endangered-species protection and by the process for the detection of explosive ordnance on construction worksites.

Currently approximately 30 percent of total cargo moving through the Port is military related. During the peak of the military build-up, the additional imported military equipment, supplies and construction materials are expected to nearly double the Port's military cargo volumes. Refer to Section 4.2 in this Report for further details on the projected impact of the military build-up on the Port's annual throughput and capacity.

Figure 2-4: U.S. Marine Corps Build-up Construction Spending Profile, FY 2017-FY 2029

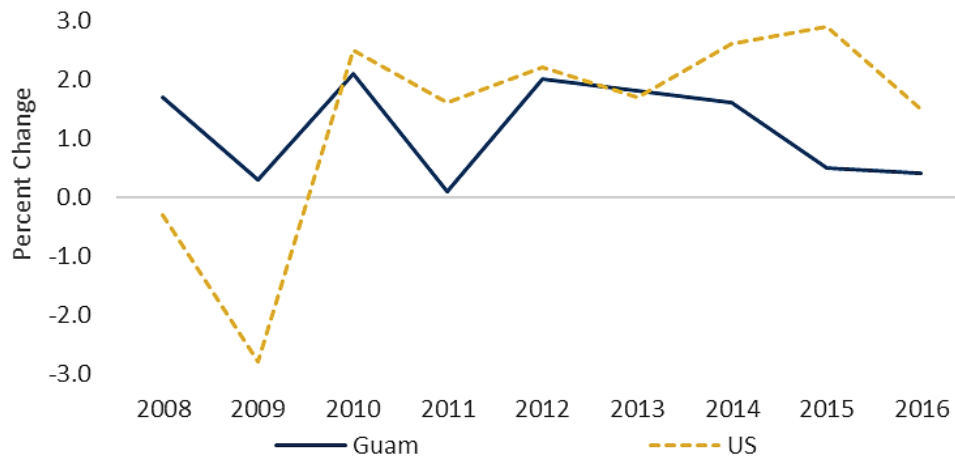
Source: Officer in Charge of Construction (OICC), Marine Corps Marianas, Overview Brief for GEDA, February 2017

2.4. ECONOMY

The growth in Guam's economy has been, and is expected to continue to be, driven by a combination of the needs of a growing population and military presence, continued expansion and diversification in the tourism industry, and private and public investment in construction for the civilian and defense sectors.

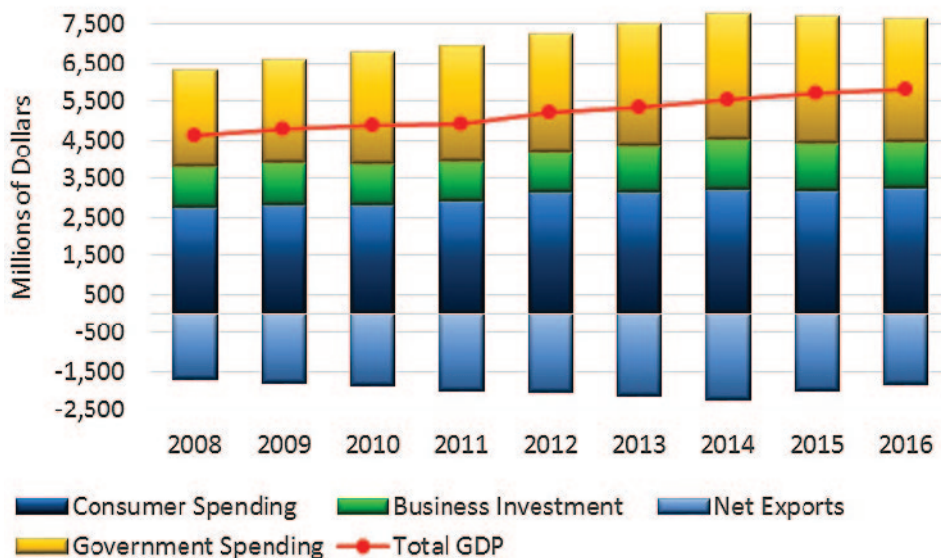
2.4.1. GROSS DOMESTIC PRODUCT (GDP)

Guam's GDP has shown consistent growth in real dollars (adjusted for inflation) since Calendar Year (CY) 2006 based on statistics published by the Bureau of Economic Analysis (BEA). In CY 2016, Guam's GDP was \$5.8 billion, which is roughly 0.03 percent of U.S. mainland GDP of \$19 trillion. Figure 2-5 shows that real GDP for Guam increased 0.4 percent in CY 2016 after increasing 0.5 percent in 2015. For comparison, real GDP for the U.S. (excluding the territories) increased 1.5 percent in 2016 after increasing 2.9 percent in CY 2015. Despite slower growth, Guam's economy has been stable over the last decade.

Figure 2-5: Percent Change in Guam and U.S. Real GDP Based on Chained 2009 Dollars, CY 2008-2016

Source: U.S. Bureau of Economic Analysis

The CY 2016 GDP figure consists of approximately \$3.3 billion of consumer spending, \$3.2 billion of Government spending, and \$1.2 billion of private fixed investment, offset by -\$1.8 billion in net exports of goods and services. As shown in Figure 2-6, Guam's economy is highly dependent on imports, representing approximately 80 percent of total GDP. Further details on Guam's trade imbalance is provided in Section 2.4.5 of this Report.

Figure 2-6: Guam GDP by Component, Real Dollars, CY 2008 - 2016

Source: U.S. Bureau of Economic Analysis

The increase in consumer spending in CY 2016 reflected growth in Guam tourism and retail trade activity. Further details on Guam's tourism industry is provided in Section 2.4.2 of this Report.

Guam experienced a slight decline in business investment in CY 2016 following the completion of major construction projects in CY 2015 such as Guam's first private hospital and a new luxury hotel. Government spending also marginally declined in CY 2016 as a result of completion of major projects at the Port and a decrease in defense construction contracts. Further details on Guam's construction industry is provided in Section 2.4.3 of this Report.

2.4.2. TOURISM

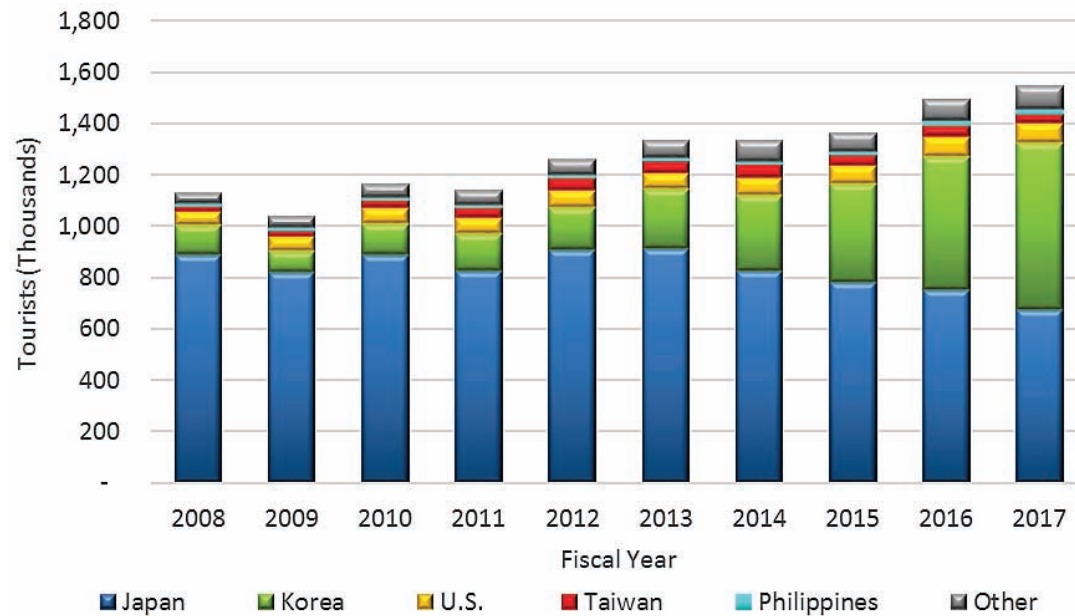
Tourism is the largest contributor to Guam's economy, representing 30 percent of GDP based on data from the Guam Visitors Bureau (GVB). Guam is a preferred tourist destination for the East Asian market due to its:

- warm climate, tropical beaches and natural beauty,
- short-haul, economical flights from/to major Asian cities,
- proximity as a U.S. territory,
- water sports such as diving and snorkeling,
- duty-free luxury shopping, and
- distinctive local Chamorro culture and food.

In early 2009, the U.S. Customs and Border Protection (CBP) implemented the Guam-CNMI Visa Waiver Program (VWP), which allows citizens of 12 participating countries and territories² to enter Guam for a maximum stay of 45 days without first obtaining a visa. Typical requirements to obtain a U.S. visa include applying at least three months in advance, paying an application fee and having an in-person interview at a U.S. Embassy or Consulate General. At the time, China was excluded from the Guam-CNMI VWP due to political and security concerns, according to the Department of Homeland Security (DHS). Since then, the Government has continued to request for China to be included in the Guam-CNMI VWP; however, the Federal Government has yet to grant the waiver for Chinese visitors.

In FY 2017 Guam had approximately 1.56 million visitors —about nine times the population. As shown in Figure 2-7, visitation increased by more than 3 percent from the previous year, making FY 2017 Guam's best year in tourism. In the past decade, tourism has grown by a CAGR of 3.5 percent, and in the past five years by a CAGR of 3.7 percent.

² Australia, Brunei, Hong Kong, Japan, Malaysia, Nauru, New Zealand, Papua New Guinea, Republic of Korea, Singapore, Taiwan, and the United Kingdom.

Figure 2-7: Guam Visitors by Origin, 2008-2017

Source: WSP analysis. Data provided by the GVB.

Historically, Japanese visitors have been Guam's largest market. However, Japan visitation has decreased in the past five years from approximately 913,000 in FY 2013 to approximately 675,000 in FY 2017. The decrease in Japanese tourists visiting Guam has not been unique to Guam, according to JTB Tourism Research and Consulting, which reports a reduction in the total international outbound Japanese market. Total Japan resident visits abroad have declined in the past five years primarily due to an increase in Japanese consumption taxes, which has reduced disposable income, and the continued devaluation of the Japanese yen. As a result, air seat capacity from Japan has decreased in recent years. In January 2018, Delta Air Lines suspended service to Guam due to reduced seat demand out of Japan, network rerouting and the entry of competitive airlines in the Guam market. However, Japan Airlines began offering a second daily flight to Guam from Narita in late March 2018.

The decline in Japanese visitors to Guam has been more than offset by increasing diversification in origin of visitors from other locations, including South Korea, the U.S., Taiwan, the Philippines and Hong Kong. South Korean visitation has grown more than 250 percent in the last five years and grew by 25 percent from FY 2016 to FY 2017. The number of South Korean visitors continues to grow, surpassing Japanese visitors as of September 2017, making it the largest tourism market for Guam.

U.S. visitation remains around 5 percent of all visitors to Guam, totaling approximately 76,000 travelers in FY 2017, while Taiwan travelers totaled approximately 36,000. Philippine visitation increased by 6 percent in FY 2017, recording nearly 20,000 visitors. Arrivals from Hong Kong grew by 91 percent in FY 2017 compared to FY 2016, totaling approximately 16,000 visitors.

Arrivals from China totaled approximately 23,000 visitors in FY 2017. Although a visa waiver has not been granted for Chinese tourists to travel to Guam, the U.S. and China have agreed to extend visa validity from a one-year, single-use visa to a ten-year, multi-use visa. This greatly reduces time and cost required for a U.S. visa and removes one of the roadblocks to attracting Chinese tourists to Guam. Two million U.S. visas, now valid for ten years, have been issued to Chinese citizens. In addition, the GVB launched a Meetings, Incentives, Conventions and Exhibitions (MICE) Visa Free Program in December 2017. The new policy is exclusively for all Chinese MICE planners and is applicable for Chinese MICE groups of 50 people or more, offering visa reimbursement costs of up to \$160 per 25 people per group.

Global political events beginning in August 2017 between North Korea and the U.S. have had a minor impact on Guam tourism. Based on year to date arrivals as of March 2018, the GVB estimates that Guam will have approximately 1.5 million visitors in FY 2018, which is a 3.7 percent decrease compared to FY 2017. The GVB has been working with the A.B. Won Pat International Airport Authority Guam (the "Airport") to offer its regular air service support program and the airport's incentive plan for discounted fees.

Visitor spending in Guam grew more than 8 percent in FY 2016 compared to FY 2015, the most recent year for which information is available, to surpass \$1.75 billion. Visitor spending increased by approximately \$100 million each year from 2013 to 2016. Each visitor on Guam spends on average \$1,250. Since duty-free shopping for luxury goods on Guam is a main attraction for tourists, it is a significant contributor to the Guam economy. Retail spending accounts for an estimated 27 percent to 34 percent of all tourism spending each year.

Table 2-2 shows the percent growth of Guam tourism over the past decade and GVB's projected growth for next three years, based on the most recent forecast available. Guam is forecast to continue to see an expansion of the number of arriving tourists and expenditures along with expanding hotel capacity, increased airline service from non-Japanese markets and improved airport facilities. Some of the notable improvements at the airport include development of a 12,000-foot runway, a new third level corridor for international arrivals to be completed in 2019, and relocation of baggage screening equipment. GVB's projected 2020 tourism arrival goal for Guam is 1.75 million visitors without approval of a visa waiver for Chinese visitors, or 2 million visitors with a visa waiver for Chinese visitors.

Table 2-2: Guam's Historical and Projected Tourism Growth Rates

	CAGR	Fiscal Years
10-Year Historical CAGR	3.5%	2008-2017
5-Year Historical CAGR	3.7%	2013-2017
GVB Projected 3-Year CAGR (based on 1.75 million visitors)	4.2%	2018-2020

Source: WSP analysis, GVB, and Tourism Economics

The tourism growth rates are considered in the computation of the Base Case forecast of the Port's cargo growth presented in Section 4.2 of this Report.

2.4.3. CONSTRUCTION

Total construction activity in Guam has been averaging approximately \$500 million annually in the past five years. As shown in Table 2-3, year-to-year variation in building permits and military construction contracts have been more variable than the overall total; however, declines in one component have been offset to some extent by increases in the other.

Table 2-3: Building Permits & Construction Contracts in Thousands, FY 2013-2017

Fiscal Year	2013	2014	2015	2016	2017	5-Year CAGR
Building Permits	\$308,552	\$406,172	\$226,013	\$434,277	\$436,833	9.1%
DOD Construction Contracts	\$73,602	\$295,691	\$308,902	\$40,963	\$167,932	22.9%
Combined	\$382,154	\$701,863	\$534,915	\$475,240	\$604,765	12.2%

Source: Guam Economic Outlook for FY 2018, Department of Labor

According to the Guam Bureau of Labor Statistics, construction activity in Guam is predicted to increase over the next few years as a result of the planned projects by commercial developers, the Government and the DOD.

Major commercial projects in Guam in development or under construction include:

- The \$165-million Tsubaki Hotel, a 26-story 340-room, five-star luxury resort. The ground breaking was March 2016 and completion is scheduled for late 2019.
- Two other hotel construction projects in Tumon are expected to begin in 2020: Citta di Mare, an approximately \$133 million four-tower hotel expected to have a total of 500 rooms, and Yacht Ville Hotel, an approximately \$110 million 106-room hotel.
- Summer Towers is an approximately \$70 million four-tower residential development with 260 luxury condominium units in Tamuning next to the Guam Memorial Hospital. The project is expected to be completed in late 2018.
- Blue Ocean Investments plans to break ground in late 2018 for a \$70 million 300-room hotel built adjacent to Tumon Sands Plaza. The hotel is expected to be completed in 2020.
- Bridge Capital LLC is proposing to develop a \$421 million commercial facility that includes an 800,000 square feet (sf) retail complex and a two-tower hotel with 590 rooms at the site of the Greyhound Raceway Park. While project plans are being finalized, a groundbreaking is targeted for 2018 and construction is expected to be completed two years later.
- The Wonderful Windward Hills Resort, an approximately \$107 million investment for 488 single dwelling homes, is under construction and expected to be completed in August 2019.
- The Northgate MarketPlace, a shopping and restaurant complex in Dededo, is in the planning stages. It is funded in part by federal grants through the Guam Housing and Urban Renewal Authority with a total project cost estimated at \$50 million.
- A new Medical Arts Center with an estimated cost of \$25 million, the product of a partnership between private developers, had a ground breaking in April 2017. The 50,000 sf, three-story commercial building located across from the Guam Regional Medical City private hospital, will house medical offices, hospice care, senior care facilities, a hemodialysis center, a pharmacy, diagnostic and therapeutic services, and other facilities.

Since most of the major construction projects for public agencies are bond or grant funded, a leading indicator of future construction is the availability of funds realized from bonds and other sources. Table 2-4 lists the major public agency projects (excluding DOD-related projects) for which funding is planned, funding has been obtained, or that are underway.

Table 2-4: List of Public Agencies with Major Construction Planned/Ongoing Projects

Planned/Ongoing Projects	
Guam Waterworks Authority (GWA)	\$128,450,000
Guam Department of Education (GDOE)	\$100,000,000
Guam Int'l Airport Authority	\$109,710,000
Guam Power Authority (GPA)	\$76,470,000
Guam Housing & Urban Renewal	\$50,000,000
University of Guam	\$21,700,000
Fisherman's Co-Op Facility	\$6,000,000
Guam Community College	\$5,000,000
Subtotal	\$497,330,000
Planned Projects – Bond/Loan Financing Proposed	
Port Authority of Guam (includes 2018 Bonds)	\$72,600,000
Department of Public Works	\$20,000,000
Department of Land Management	\$15,750,000
Guam Memorial Hospital Authority	\$9,200,000
Judiciary of Guam	\$8,000,000
Harmon Industrial Park Association (Tax Credit)	\$7,000,000
Subtotal	\$132,550,000
TOTAL	\$629,880,000

Source: *Guam Economic Outlook for FY 2018 and FY 2019, Department of Labor*

Major public projects in Guam include:

- \$79.4 million in water system reservoir improvements and \$20.9 million in water distribution system pipe replacements and upgrades as part of GWA's \$128.4 million CIP projects. The projects are expected to be complete between 2019 and 2020.
- \$77 million for a new Simon Sanchez High School as part of GDOE's \$100 million CIP. The project is expected to be complete in late 2019.
- The \$96.7 million Airport project includes modifications to the terminal and the construction of a third-floor concourse. Construction is expected to be complete by August 2019.
- \$35 million for an energy storage system project for GPA to back up the main power grid. The construction and installation of two utility-scale energy storage units that will generate 40 megawatts of power is expected to be operational by May 2018.

Major projects in Guam funded by the Federal Government include:

- \$30.6 million interceptor sewer line refurbishment to support Andersen AFB and the New Marine Corps Base. It is funded by federal grants from the DOD and U.S. EPA. Construction is expected to be completed by the end of 2018.

- \$160.4 million northern district water treatment plant improvement project. It is funded by federal grants from the DOD.
- \$18.2 million Yigo and Astumbo Reservoir project includes the construction of new water tanks and associated infrastructure improvements for the GWA. The project is scheduled for completion in December 2018.

According to GEDA, other developments being pursued by the Government, private enterprise or both include a bonded warehouse on Guam as a consolidation and customs clearance center, a hub for the collection and transshipment of recyclable materials in the region, a redevelopment of the Hagåtña area, light domestic manufacturing of construction materials, expanded eco and sports tourism, and television and commercial film production for Asian producers.

A leading indicator of DOD construction is appropriations. Appropriations for DOD Military and Civilian Infrastructure are shown in Table 2-5.

Table 2-5: Appropriations in Thousands for DOD Military and DOD Civilian Infrastructure Projects

Fiscal Year	2013	2014	2015	2016	2017	2018
DOD Military Construction	\$101,904	\$494,607	\$133,680	\$272,268	\$248,658	\$354,654
DOD Civilian Infrastructure	--	\$119,400	--	\$20,000	--	--
Combined	\$101,904	\$614,007	\$133,680	\$292,268	\$248,658	\$354,654

Source: Guam Economic Outlook for FY 2018, Department of Labor; NDAA for 2018

Although appropriations for U.S. DOD military and civilian infrastructure have declined since 2014, military build-up projects are expected to increase in the next few years due to the following:

- There is in excess of \$1 billion in appropriations related to the development and construction of facilities accommodating the military build-up available for contracting. The DOD could not move forward with releasing these funds until it met certain requirements imposed by the U.S. Senate. The prior hold on their use was released in 2016 budget authorization legislation, now public law.
- FY 2016 projects approved by Congress included: Live-Fire Training Range Complex Northwest Field (\$125.6 million); Municipal Solid Waste Landfill Closure (\$10.7 million); Sanitary Sewer System Recapitalization (\$45.3 million); Energy Conservation (\$5.3 million); Air Power Resiliency (APR) Dispersed Maintenance Spares & Southeast Storage Facilities (\$19.0 million); APR Installation Control Center (\$22.2 million); APR South Ramp Utilities Phase 2 (\$7.1 million); and Pacific Regional Training Center Roads (\$2.5 million).
- FY 2017 projects approved by Congress included: Munitions Storage Igloos Phase 2 (\$35.3 million); Satellite Communication C41 Facility (\$14.2 million); Global Hawk Block 40 Maintenance Hangar (\$31.1 million); Harmon Power Upgrade (\$62.2 million); Hardening of Guam Petroleum Oil Lubricant Infrastructure (\$26.9 million); and Replace Andersen Housing Phase 1 (\$78.8 million).

- The FY 2018 National Defense Authorization Act (NDAA) defense bill authorized \$354.6 million for military construction projects for Guam to support the build-up, as well as current military operations in Guam. Projects include: Aircraft Maintenance Hangar #2 (\$75.2 million), Corrosion Control Hangar (\$66.7 million), Marine Aviation Logistics Squadron Facilities (\$49.4 million), Navy Commercial Tie-In Hardening (\$37.1 million), Water Well Field (\$56.0 million), Construct Truck Load & Unload Facility (\$23.9 million), Reserve Medical Training Facility (\$5.2 million) and the Replacement of Andersen Housing Phase 2 (\$40.8 million).

In 2016 and 2017, DOD officials and Guam construction contractors faced a construction labor shortage in Guam due to challenges in getting approvals for H-2B visas. According to data from the Guam Department of Labor, U.S. Citizenship and Immigration Services (USCIS) approved approximately 4 percent of H-2B visa applications for Guam between January and September 2016. In 2014 and 2015, the U.S. Citizenship and Immigration Services approved over 98 percent of H-2B visa applications for Guam.

Historically, the H-2B visa program has provided Guam with a large supply of temporary foreign labor to support the limited labor pool in Guam. Guam's previous exemption from the H-2B visa yearly quota ended Dec. 31, 2014 and most H-2B workers' visas to work in Guam expired in 2016 and early 2017. This resulted in a significant decline in construction workers during this period, as discussed in Section 2.4.4.

The 2018 NDAA allows Guam and CNMI to have up to 4,000 H-2B visa workers each year for military buildup-related construction projects. The Department of the Navy's workload projections in the July 2015 Final SEIS indicate that more than 3,000 foreign laborers will be needed to supplement the Guam or CNMI workforce during the peak of construction for the military build-up. While the 2018 NDAA addresses the labor shortage for the military build-up, it is unclear if Guam's non-defense H-2B visa shortages will be resolved.

The 2018 NDAA bill also extends Guam's exemption from the national H-2B visa cap until October 2023. The Guam H-2B worker provision in the 2018 NDAA takes effect April 11, 2018; and the earliest start date for H-2B workers on Guam is May 11, 2018.

In October 2016, 11 Guam-based companies and the Guam Contractors Association initiated a class-action lawsuit against USCIS and other federal agencies, alleging that, starting in 2016, USCIS began rejecting their H-2B visa petitions for work during exceptionally busy periods at a rate approaching 99 percent compared to a prior Guam average approval rate of approximately 95 percent through 2015. In January 2018, the U.S. District Court of Guam preliminarily enjoined USCIS from relying on the failure to satisfy peak-load or one-time occurrence conditions as grounds for denying H-2B visa petitions and ordered USCIS to reconsider H-2B visa petitions that were previously denied.

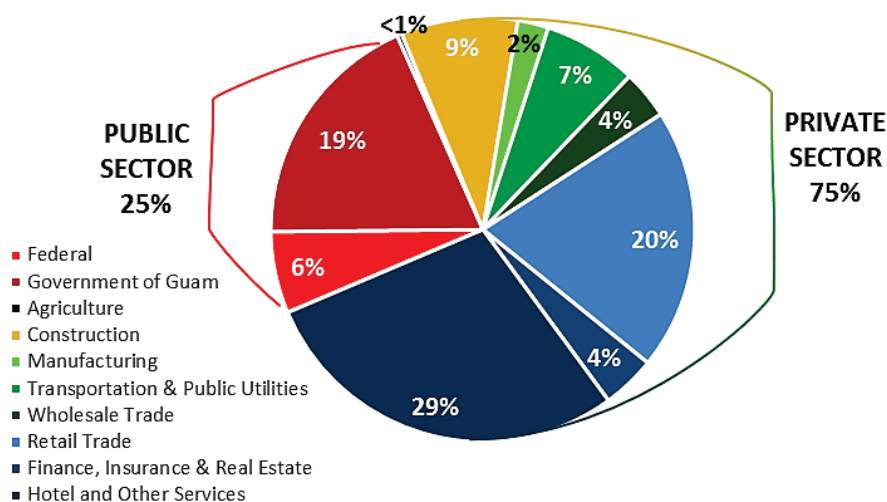
In April 2018, the U.S. District Court of Guam certified a class of businesses in Guam, thereby permitting Guam employers who believe they have had unlawful denials of H-2B visa petitions by USCIS to seek temporary relief under the 2018 Preliminary Injunction Order. According to

the Guam Department of Labor Alien Labor Processing and Certification Division, between the date of the 2018 Preliminary Injunction Order and April 20, 2018, approximately 1,601 H-2B visa petitions have been filed. Of such amount, 654 H-2B visa petitions for military related projects were filed by two Guam-based companies and received approval by USCIS in March 2018. The remaining 947 H-2B visa petitions are currently undergoing the application process with USCIS. During this period, no H-2B visa petition has been denied by the USCIS.

2.4.4. EMPLOYMENT

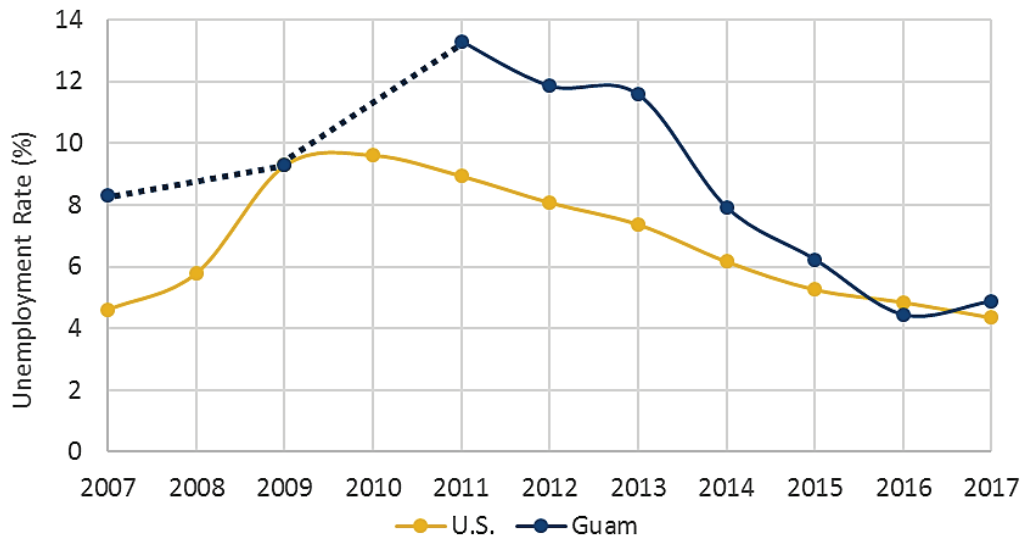
The private sector in Guam supplies approximately 75 percent of the labor force, while the public sector supplies nearly a quarter of all employment in Guam, including the Government accounting for 19 percent of employment (Figure 2-8). Guam's civilian labor force is predominantly retail trade and service-oriented due to the prominence of the tourism industry. The Hotel and Other Services and Retail Trade industries are the largest categories of employers in Guam, representing 29 percent and 20 percent of total jobs, respectively. Construction is also an important sector, accounting for 9 percent of private employment in Guam.

Figure 2-8: Guam Employment Percentage by Sector, 2017



Source: Government Bureau of Labor Statistics, December 2017 (latest)

In 2017, Guam's average unemployment rate of 4.9 percent was slightly higher than the U.S. average unemployment rate of 4.4 percent. However, Guam's unemployment rate has been historically higher than the unemployment rate of the U.S. as shown in Figure 2-9.

Figure 2-9: Unemployment Rates in Guam and the U.S., 2007 – 2017

Note: The dashed line reflects biennial reporting of Guam's unemployment rates prior to 2011.

Source: *The Unemployment Situation on Guam Summary History: 1974 – 2017*, U.S. and Guam Bureau of Labor Statistics Department of Labor

The difference between the two metrics peaked in 2011, when Guam had an unemployment rate of 13.3 percent and the U.S. had an unemployment rate of 8.9 percent. Guam's high unemployment rate in 2011 was due in part to the delay in the military build-up after many private companies had prepared for large-scale construction projects, and the Japan earthquake and tsunami in March 2011 that temporarily impacted Guam's tourism industry. In addition, the reconciliation of Guam's demographic statistics from the 2011 release of the 2010 U.S. Census impacted the reporting of unemployment data.

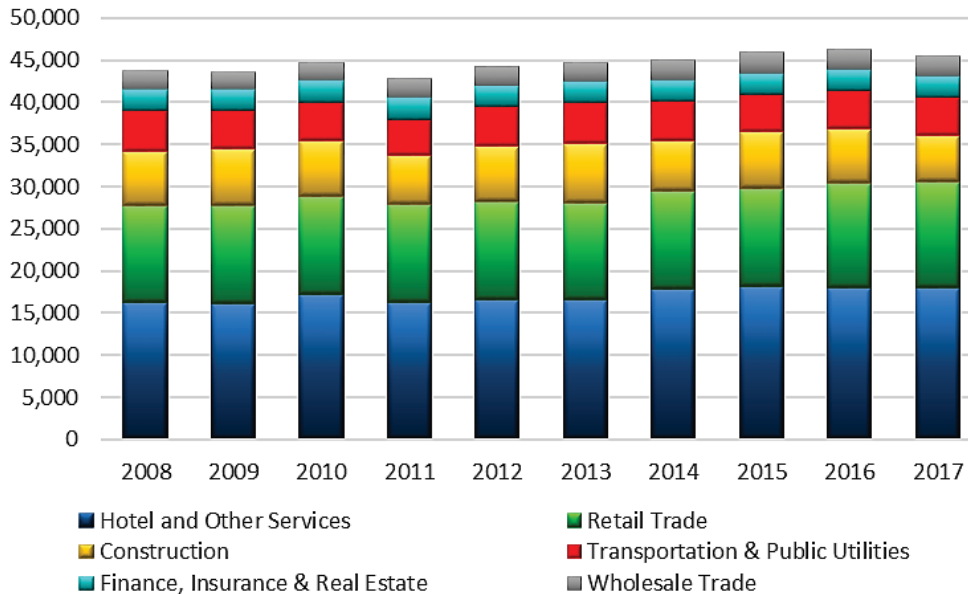
Since 2011, Guam's unemployment rate has been falling rapidly and has, in recent years, come close to matching the U.S. unemployment rate. Guam's declining unemployment rate from 2013 to 2017 is primarily due to an increase in the number of jobs in the tourism and construction industries, as well as a slight decline in the rate of population growth.

Both public and private sector employment in Guam has grown by a CAGR of 0.3 percent in the past 10 years. Figure 2-10 shows the six largest private sector industries in terms of total number of civilian employees and growth from 2008 to 2017. All industries have seen nominal changes over this period except for the Construction Sector. Employment levels in this sector often fluctuate from year to year based on construction activity. However, the low in 2017 at 5,590 workers, a decrease of 13 percent from the previous year, is notably lower than the average of about 6,410 construction employees over the 10-year period.

As noted in Section 2.4.3, the decline in Construction Sector employment is largely attributed to the repatriation of H-2B workers. The number of H-2B workers declined from 1,042 in September 2016 to 86 in the September 2017 report, while non-H-2B workers in the

Construction Sector and in other industries increased over the year. That decline is anticipated to reverse given the recent approval of H-2B visa workers for military construction projects.

Figure 2-10: Change in Guam Private Sector Employment, 2008-2017



Source: Government Bureau of Labor Statistics, September 2017

2.4.5. TRADE

Guam has a history of carrying a sizeable trade imbalance, bringing in far more goods than it sends elsewhere. Guam's Bureau of Statistics and Plans estimates approximately \$583 to \$687 million worth of goods were imported annually into Guam from 2014 to 2016, and approximately \$41 to \$47 million worth of goods were exported annually from Guam during the same period. On average, approximately 80 percent of those goods, by value³, moved through the Port with the remaining portion moved by air. This reflects the high cost of transporting cargo via air.

Much of Guam's trade is influenced by its unique duty free status, meaning that no tariffs are added to international products. International visitors to Guam can purchase high-end luxury goods such as jewelry, perfumes, cosmetics, electronics, liquor, and cigarettes at lower prices. Of Guam's top import partners, the U.S. accounts for over half of Guam's imports by value, followed by Singapore, Italy, South Korea, France, Japan and China. While Guam remains heavily dependent on U.S. imports, as it has in past years, other countries such as Singapore, Italy and France are sources for luxury goods.

³ By total volume, approximately 90 percent of goods move through the Port each year.

Guam's top imports by value include motor vehicles, electrical machinery/equipment, petroleum oils and gases and luxury items such as articles of leather, perfumes, beverages, and watches. Some of these imports, such as motor vehicles and petroleum products, are imported into Guam and then immediately exported. This transshipment cargo is unloaded at an intermediate port such as Guam, and, after temporary storage in the yard, is transferred to another vessel to be transported to the final port of discharge. More than half of Guam's exports are goods transshipped to surrounding Micronesian islands.

Top exports by value include fish, motor vehicles, and duty free items such as tobacco products, alcoholic beverages and watches. Guam's top export destinations include FSM (e.g., the islands of Yap, Chuuk, Pohnpei and Kosrae), which represents Guam's largest transshipment market and accounts for over one third of Guam's exports by value, as well as Japan, Hong Kong, Palau, Marshall Islands, China and South Korea.

The Port's principal transshipment cargo is shipped in containers, representing approximately 98 percent of total transshipment tonnage in FY 2016 and FY 2017. This transit cargo typically arrives in the Port of Guam from the U.S. or Asia and is then transferred to smaller ports in the CNMI, Palau, FSM and RMI. Transshipment containers (mostly empty) from the Micronesian islands are then typically sent back through the Port of Guam, and outbound to U.S./Asia ports.

The handling of transshipment cargos that are supplemental to those bound for or exported from Guam allows the Port to grow revenues beyond those normally allowed by local economic conditions. Although transshipment cargo does not generate as much revenue (approximately six percent of total annual revenue) as local containers per year, transshipment is a means of achieving a greater return on investment in port infrastructure. Further details on Guam's transshipment trade are provided in Section 4.1.1 of this Report.

2.5. ROUTES AND CARRIERS

To service Guam, ocean carriers deploy cargo ships between the U.S. or Asia markets and Guam to take advantage of lower operating costs and then use smaller feeder vessels for transporting transshipment cargo between Guam and the Micronesia islands. Vessels on these trade routes often carry a combination of containers, breakbulk and Roll on/Roll off (Ro/Ro)⁴ cargo to reduce service costs and meet the various market demands of the islands.

Carriers with service routes between the U.S. mainland and Guam are exempt from certain U.S. cabotage requirements contained in the Merchant Marine Act of 1920 (PL 66-261), also known as the Jones Act. Section 27 of the Jones Act requires that all goods transported by water between U.S. ports be carried on U.S.-flag ships, built in U.S. shipyards, owned by U.S. citizens, and crewed by U.S. citizens and U.S. permanent residents. Table 2-6 provides details on the carriers with service routes calling at the Port.

⁴ Cargo that is rolled on/off a vessel, including automobiles, unitized and breakbulk cargo on wheeled equipment.

Table 2-6: Ocean Carriers with Services to Guam

Company Name	Type	Cargo	Containers in FY 2017	% of Total FY 2017	Years serving the Port
Matson, Inc.	Jones Act Carrier (U.S.-built, flagged, owned, and crewed)	Local containers	61,751	64.3%	22 Years
American President Lines (APL)	U.S. Flag Carrier Foreign-built	Local containers	10,226	10.6%	28 Years
Seabridge	U.S. Flag Carrier Foreign-built	Transshipment military	99	0.1%	29 Years
Waterman Steamship Corp.	U.S. Flag Carrier Foreign-built	Local Ro/Ro	1,644	1.7%	4 Years
Kyowa Shipping Co. (Kyowa)	Foreign Flag Carrier	Transshipment and local containers, breakbulk and Ro/Ro	9,204	9.6%	44 Years
Marianas Express Lines Limited (MELL)	Foreign Flag Carrier	Local containers	13,121	13.7%	21 Years
Total			96,045	100%	

¹1980 to 2006, 2016 to 2018

Note: Total does not include 10 containers transferred by a foreign carrier's intermittent service during FY 2017.

Source: WSP analysis. Data provided by the Authority

These carriers are not required to use U.S. built ships (46 U.S.C. 12111), effectively allowing the deployment of foreign-owned, foreign-built U.S. flag vessels in the domestic Guam trade. However, the vessels must be U.S. flagged, meaning that the ships must employ a U.S. crew and are subject to USCG inspection. The foreign ownership of a U.S. flag vessel must be arranged through a special purpose U.S. trust.

The historical exemption from the U.S. build requirement is of limited usefulness to carriers in the domestic Guam trade since the natural westbound trade lane from the West Coast to Guam passes through Hawaii, which is not exempted from the U.S. build requirement. In the past five years, there have been numerous media reports and a small number of legislative proposals requesting a Jones Act exemption for Hawaii and other non-contiguous territories. Although a U.S. territory, CNMI (e.g., Saipan, Tinian, Rota) is exempt from the provisions of the Jones Act due to the international treaty associated with their annexation by the U.S.

Since foreign-flagged vessels are restricted from transferring cargo directly to/from U.S. ports on the mainland and Guam or Hawaii, these vessels must call at a foreign port in between calls to U.S. mainland ports and Guam or Hawaii.

2.5.1. U.S. CARRIERS

The U.S. flag carriers serving Guam are Matson, Inc., APL, Seabridge and Waterman. Matson is the only U.S. carrier that is fully compliant with the Jones Act requirements, i.e., transporting

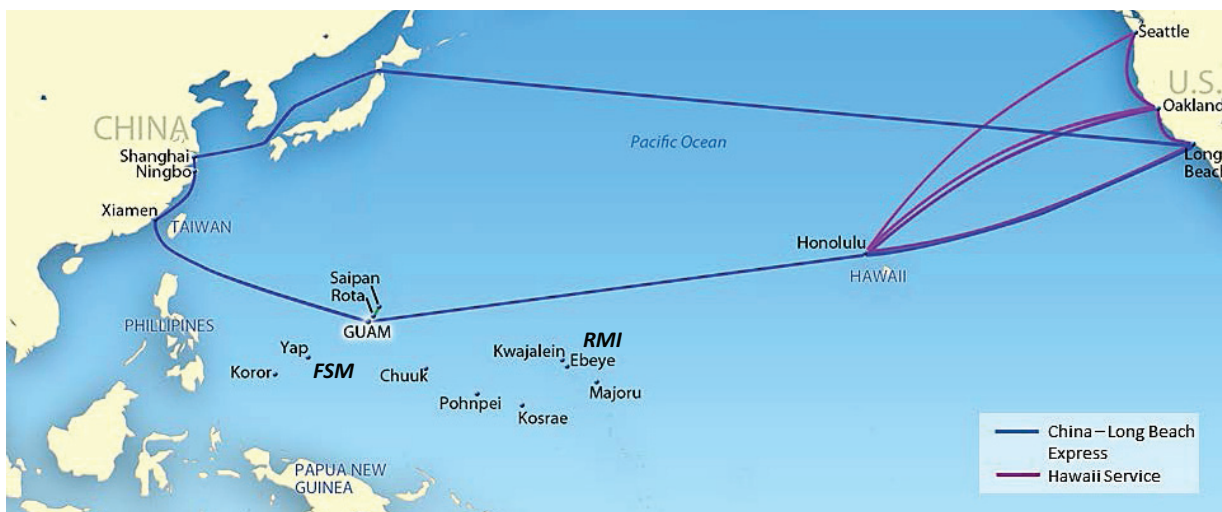
goods using U.S. flag ships, built in U.S. shipyards, owned by U.S. citizens and crewed by U.S. residents. The three other U.S. carriers operate foreign-built, U.S. flagged vessels.

MATSON

Matson, Inc., formerly known as Matson Navigation Company, is a containership operator serving Guam, Hawaii and China trades. Matson entered the Guam trade by joining an alliance in 1996 with APL. At the time APL was being sold into foreign ownership and needed Matson to purchase and operate their Jones Act eligible containerships on their U.S. flag services.

The company is now the primary carrier at the Port, accounting for approximately 64 percent of all cargo in FY 2017. Matson's Guam service currently employs five containerships, each with a capacity of approximately 2,500 Twenty-foot Equivalency Units (TEU), in a string that carries cargo from the U.S. Pacific Coast to Honolulu, then to Guam. As shown in Figure 2-11, the vessels continue on to China, where they are loaded with cargo to be shipped to the U.S. mainland and discharged in Long Beach (blue lines). Cargo on a Matson vessel that is destined for the FSM and RMI islands is transshipped via Kyowa's vessels from the Port.

Figure 2-11: Matson Service through Guam



Source: WSP. Service details provided by Matson.

Matson also provides a weekly transshipment service between Guam and Rota and Saipan, CNMI. In the past three years, the service has transferred an average of approximately 140 containers per vessel call.

APL

APL provided service to Guam from 1980 until 1996, when it sold the service to Matson. However, APL continued to operate the vessels for 10 more years as part of an alliance with Matson. In 1997, APL was acquired by the Singapore-based Neptune Orient Line Limited (NOL) and became a foreign shipping company. The APL / Matson alliance terminated in 2006 with APL's departure from the Guam trade. APL reentered the Guam trade in 2016 with a biweekly service and at the beginning of 2017 began offering weekly service.

In 2016, French shipping line CMA CGM acquired NOL/APL. APL currently owns and operates (through special U.S. trusts) several foreign-built U.S. flag containerships that allows them to compete for Federal Government preference cargo, especially military preference cargoes, and are eligible for federal Maritime Security Program (MSP) operating subsidies⁵. APL is the only domestic carrier with direct service from Asia to Guam. This allows the company to transport “Buy America” construction supplies from Asia for use by commercial and DOD contractors on Guam.

APL carried approximately 11 percent of all cargo coming in and out of the Port in FY 2017. APL's Guam service is comprised of two container ships, the APL Saipan and APL Guam, with capacities of 1,600 TEUs and 1,100 TEUs respectively. The two container ships run a weekly service that links Guam and Saipan to the U.S. mainland via the carrier's global network in Busan and Yokohama. Cargo from/to Guam joins APL's Eagle Express service (EX1) or the Pacific Northwest loop (NP1) in either Busan or Yokohama. These routes are shown in Figure 2-12.

Figure 2-12: APL Service through Guam



Source: WSP. Service details provided by APL.

SEABRIDGE

Seabridge Inc., a subsidiary of Cabras Marine Corporation, operates a feeder service that carries cargo to/from Guam and the CNMI. The U.S. flag tug and barge operation provides inter-island services for Matson, Saipan Shipping, a sister company of Kyowa, and other carriers. The company, which has been calling at the Port since 1989, previously operated a foreign flag service between Guam and the CNMI until new regulations affecting CNMI immigration made it

⁵ The Maritime Security Act of 1996 established the MSP, which provides an annual subsidy to sixty 60 U.S. flag ships operating in the foreign trade, i.e., 60 of the 81 ships in the U.S. flag foreign (international) trade fleet (as of 04/01/2017). The MSP is administered by U.S. Maritime Administration. The U.S. government grants the MSP subsidy to the ship owner in exchange for agreeing to make the ship available for military sealift in the event of an overseas contingency.

difficult to sustain the service. Currently, Seabridge's service primarily carries U.S. military cargo to Kwajalein via transshipment at Guam. The biweekly/monthly service transfers an average of about 10 containers per vessel call between Guam and CNMI.

WATERMAN

Waterman Steamship Corp., the principal subsidiary of International Shipholding Corp., is an independent owner and operator of U.S.-flag Ro/Ro vessels. The carrier has a scheduled U.S.-flag car/truck carrier vessel service between Guam, Japan, South Korea and U.S. West Coast ports. The carrier calls at the Port every 45-50 days and transfers an average of about 400 automobiles per vessel call to Guam.

2.5.2. FOREIGN CARRIERS

The foreign-flag carriers serving Guam include Kyowa Shipping Co. (Kyowa) and Marianas Express Lines Limited (MELL). These carriers serve the Guam-Asian market, as well as provide the majority of transshipment services to other non-U.S. territory ports in the region.

KYOWA

Founded in 1974, Kyowa Shipping Co. is a Japan-based regional carrier that provides regular liner shipping service from Japan, Australia, Asia, and Southeast Asia to Guam and Saipan. The company has become one of the top marine transport companies for the islands of the Pacific Ocean.

Kyowa has a space chartering and connecting carrier agreement with Matson for service between Asia and Guam/Micronesia and with MELL for service to the FSM and RMI islands. Cargo originating from the U.S. mainland and Hawaii is sent to Guam on a weekly Matson vessel. Similarly, cargo from Asian ports on MELL's service rotation are sent to Guam on a weekly basis. Once in Guam, this cargo is transferred to one of Kyowa's multipurpose vessels that carry containers, breakbulk and Ro/Ro cargo and is transshipped to various destination ports in Micronesia.

In addition, Kyowa has a space chartering agreement with NYK-Hinode, a Japan-based cargo vessel operator, to deliver approximately 150 – 230 personal vehicles per month to Guam.

Cargo from Korea and Japan is also picked up directly by Kyowa vessels as part of its rotation and remains on these vessels until offloaded at its destination port in Micronesia. Figure 2-13 illustrates the service rotation. The weekly transshipment service transfers an average of approximately 220 containers per vessel call between Guam and FSM and RMI islands.

Figure 2-13: Kyowa Direct and Transshipment Services through Guam

Source: WSP. Service details provided by MSA.

MELL

MELL was founded in 1997 and started with two vessels plying the route of Hong Kong, Guam, Saipan and Taiwan. MELL is currently a container liner operator headquartered in Singapore that carries containers between China, Southeast Asia, Japan, Australia and islands in the Pacific. The company became a subsidiary of Pacific International Lines (Private) Ltd. in March 2015.

MELL provides weekly service to Guam, deploying four vessels having an average capacity of 1,200 TEUs. The rotation for the Micronesia Express Service (MXS) is Hong Kong, Nansha, Kaohsiung, Naha, Guam, Saipan, Yap, Koror, Cebu, General Santos, and Davao. Figure 2-14 illustrates MELL's current service rotation.

MELL carried approximately 14 percent of all cargo coming in and out of the Port in FY 2017. The MXS service transfers an average of approximately 290 containers per vessel call in Guam. Cargo on a MELL vessel that is destined for the FSM and RMI islands is transshipped via Kyowa's vessels from the Port.

Figure 2-14: MELL Service through Guam

Source: WSP. Service details provided by MELL.

2.6. COMPETITION

The Port has several competitive advantages over other ports in its region. First, Guam is the largest island in the Marianas archipelago and a strategic U.S. military hub, which means that the Port receives the benefits associated with catering to both a larger civilian and military population, and has the resources to maintain and expand its facilities. Second, the Port is the only one in the region with the required infrastructure (berth depth, storage yard) and equipment (gantry cranes, container handlers) to service container vessels with a capacity up to 4,000 TEUs.

Where a port has a very large local market, such as Guam, compared with other nearby ports, it is more likely to serve as a carrier's transshipment hub with its larger vessels centered on this "gateway" port. The use of smaller containerships or barges for transshipment routes offers carriers a more cost effective way of providing faster and more frequent services to multiple smaller ports in the region on short and/or low container volume rotations. The smaller ports have shallow berths without dockside container cranes requiring smaller "geared" ships and barges, those with cranes installed on the vessel, to provide service to these ports.

During FY 2014 and FY 2015, a portion of Guam's transshipment cargo shifted to Saipan in the CNMI and to Majuro in the RMI but returned to Guam in FY 2016. These other island ports are heavily reliant on transshipment cargo because of their relatively small populations, and thus competitively price their cargo handling services. However, they have limited infrastructure (berths and container storage space), cranes and container handling equipment. Further details on Guam's transshipment market is provided in Section 4.1.1 of this Report.

2.6.1. SAIPAN

Saipan is the second-largest island in the Mariana Islands archipelago, after Guam. The island has been a municipality of the U.S. Commonwealth of the Northern Mariana Islands since 1978. Saipan had a population of 48,220 in 2010 according to the USCB, and an estimated population of 49,000 in 2014 based on the 2017 U.S. CIA World Fact Book.

Saipan has experienced an influx of investment because of Chinese developers starting a number of projects on the island. The Port of Saipan has thus experienced investment aimed at expanding and modernizing its facilities. The Port of Saipan is operated by the Commonwealth Ports Authority. The Port of Saipan has 22 acres of container yard and 2,600 linear feet of berthing space. The channel, turning basin, and berthing areas have a depth of 40 feet. The Port of Saipan does not currently have fixed, mobile, or floating cranes.

2.6.2. MAJURO

Majuro, a large coral atoll in the eastern chain of the Marshall Islands, is the capital and largest city of the RMI. Majuro had an estimated population of 27,797 in 2011, according to the RMI Census Report.

The Port of Majuro is operated by the Marshall Islands Ports Authority. It also does not have fixed, mobile, or floating cranes. With an approximate container yard area of 6.3 acres and 1,464 linear feet of total berthing space, the Port of Majuro is considerably smaller than the Port of Saipan. The channel, turning basin, and berthing areas have a minimum depth of 50 feet. The Port of Majuro primarily serves small fishing vessels and cargo vessels that deliver a variety of imported food, household items, construction equipment and materials, fuel products, and copra and coconut oil.

SECTION 3. AUTHORITY FACILITIES AND OPERATIONS

This section provides a general overview of the Authority's landside and waterside access and existing infrastructure, facilities and equipment. It can serve as a reference for comparison purposes to the Port improvements described in Section 5.

3.1.ACCESS

The Commercial Port facilities operated and managed by the Authority are located on Cabras Island along the northern shoreline of the Outer Apra Harbor, a natural lagoon enclosed by a submerged coral bank and a barrier reef enhanced with a breakwater, as shown in Figure 3-1. The main navigation channel, anchorages, Port facilities, marinas, other marine industrial facilities and the Navy's Delta, Echo and Kilo wharves are located in the Outer Harbor.

Figure 3-1: Outer Apra Harbor



Source: Digitalglobe, WSP and the Authority

Landside access to the Port from Tamuning and other urban areas is via the four-lane main arterial, Route 1 (known as Marine Corps Drive), which from this point runs Southwesterly towards Piti. Access to the Commercial Port from Piti is via an intersecting two-lane road, Route 11. On Cabras Island, Route 11 runs west past GPA's Cabras Power Plant Complex, through vacant lands set aside for the Cabras Island Industrial Park, north of the Commercial Port area and dead ends on Glass Breakwater, which forms the northern breakwater for Outer Apra Harbor. The Northern barrier along the Route 11 consists of a low seawall and armored breakwater protection facing the Philippine Sea.

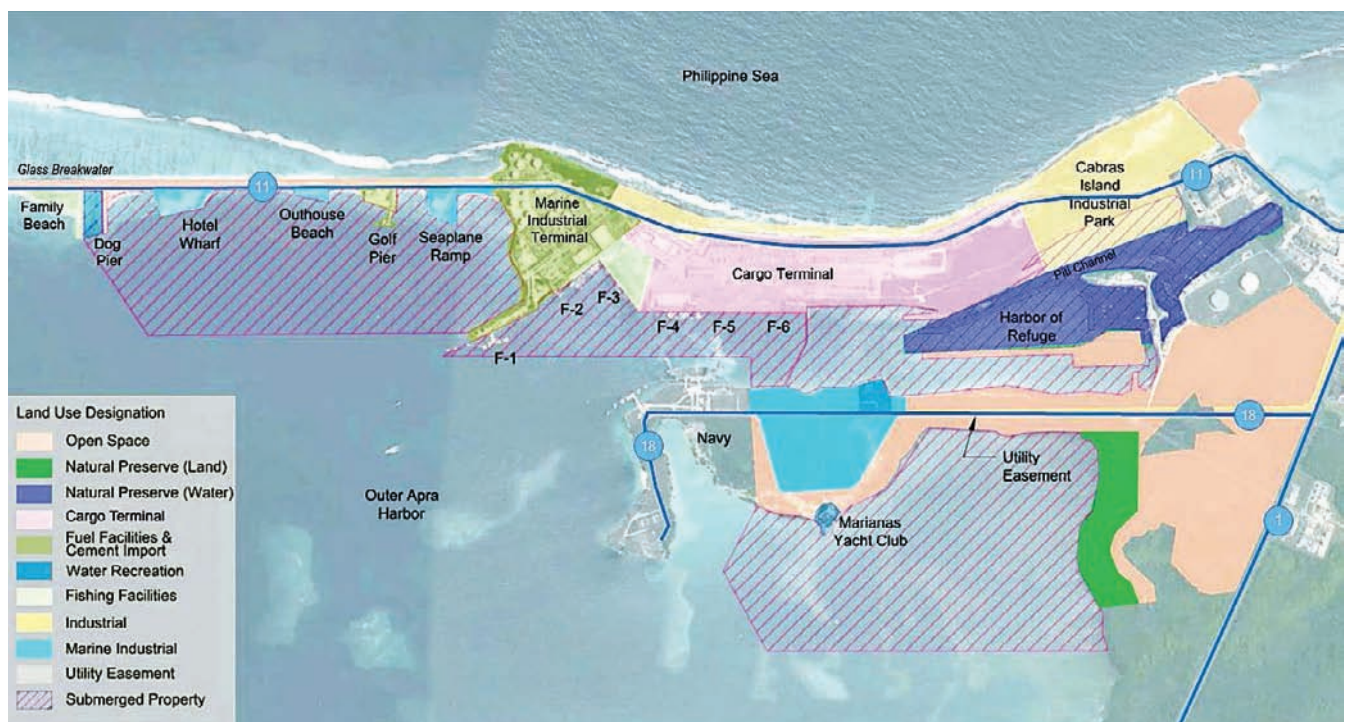
Landside access to the Navy's facilities is via a two-lane road, Route 18 (accessed via Route 1), which is south of the Port and runs parallel to Route 11.

3.2.ASSETS

Most of the Authority's facilities are located on Cabras Island in Piti, Guam. Management and operation of the majority of the Port facilities on Cabras Island was transferred from the Government to the Authority between 1979 and 1985. GEDA assigned the management of the remaining 32 acres within the site of the existing Marine Industrial Terminal to the Authority in 1988. Currently Cabras Island is under the administrative jurisdiction of the Authority, with the exception of the GPA's Cabras Power Plant Complex.

Overall, the Authority has jurisdiction over more than 1,000 acres of land in Guam including 515 acres of submerged land parcels. The Authority's marine and landside assets on Cabras Island include the Harbor of Refuge, Aqua World Marina, Piti Channel, Cargo Terminal, Marine Industrial Terminal, Hotel Wharf, Dog Pier, and Family Beach depicted in Figure 3-2. The Authority's facilities have been categorized by physical location and, to some extent, function, as shown in Table 3-1 and Table 3-2. The cargo berths are identified by the letter "F" and the corresponding number 1, 2, and so on.

Figure 3-2: Commercial Port Access, Facilities and Land Use Designations



Source: The Authority and WSP

Table 3-1: Marine Assets and Characteristics

Marine Asset	Length (Ft)	Depth (Ft)	Location	Current Use
Family Beach and Dog Pier	NA	NA	Cabras Island Glass Breakwater	Leased facility for fishing and water recreation
Hotel Wharf	500	26	Cabras Island Glass Breakwater	Chassis storage by various Port users
Golf Pier	370*	40	Cabras Island Glass Breakwater	Managed by Mobil Oil (*bulkhead) for liquid bulk tankers and also used by Cementon for bulk operations
Outhouse Beach	NA	NA	Cabras Island Glass Breakwater	Leased facility for diving
Seaplane Ramp	111	10	Cabras Island Glass Breakwater	Leased facility for barge operations
F-1	550	70	Marine Industrial Terminal	Managed by Tristar for unloading oil tankers and used by South Pacific Petroleum Corp. (SPPC) and Isla Petroleum and Energy for unloading liquefied petroleum gas (LPG)
F-2	670	24-26	Marine Industrial Terminal	Fishing fleet repair, leased to Cabras Marine for tug boat maintenance and berthing
F-3	750	28-30	Cargo Terminal	General cargo, passenger vessels, fishing vessels
F-4	665	37	Cargo Terminal	Container, cruise ships and general cargo
F-5	665	37	Cargo Terminal	Container, cruise ships and general cargo
F-6	665	37	Cargo Terminal	Container and general cargo
Harbor of Refuge	NA	NA	Apra Harbor Piti Channel	Leased to various tenants for long-term moorage for ~32 vessels
Aqua World Marina	NA	NA	Apra Harbor Piti Channel	Leased by Aqua World for boat slips and landside facilities
Gregorio D. Perez Marina	NA	NA	Hagatna	Floating slips and moorage for ~46 vessels leased to various tenants
Agat Marina	NA	NA	Agat	Berthing areas for ~114 boats, boat ramp, fuel and loading dock leased to various tenants

Source: The Authority and WSP

Table 3-2: Commercial Port Cargo Areas

Commercial Port Cargo Areas	Acres	Marine Area	Location	Current Use
Cargo Terminal	89	F-3 to F-6	Cabras Island	65 acres of cargo operation, 24 acres undeveloped and reserved for expansion
Marine Industrial Terminal	50	F-1, F-2	Cabras Island, west of Cargo Terminal	Leased to private companies for liquid fuel, fishing and marine industrial use
Cabras Island Industrial Park	42.2	N/A	Cabras Island, east of Cargo Terminal	Recycling, staging, remainder undeveloped

Source: The Authority and WSP

3.2.1. CARGO TERMINAL

The 89-acre Cargo Terminal comprises four berths numbered F-3 to F-6; 40.1 acres of storage yard for containers; 9 acres of open storage for breakbulk, vehicles and general cargo; 9.9 acres for buildings, structures, parking and circulation; 3 acres of gates and terminal access roadways; and 24 acres of undeveloped land reserved for expansion. The Authority stores its container cargo behind Berths F-5 and F-6 and on the east side of the terminal. Breakbulk cargo is stored on the west side of the terminal behind Berth F-4.

The Cargo Terminal has an annual throughput capacity of approximately 200,000 to 215,000 containers, based on the capacity of the terminal berths and/or storage yard. The existing and potential throughput capacity of these components is discussed in the following sections. The Cargo Terminal's throughput capacity not only exceeds the forecasted Base Case volumes (refer to Figure 4-5) for the Port in the next 10 years, it is also sufficient to meet the forecasted peak cargo volumes associated with the military build-up (refer to Figure 4-6).

3.2.1.1. Berths F-3 to F-6

Berth F-3 is in the southwest corner of the cargo terminal. Long-liner fishing boats with lengths ranging from 75 to 100 feet and drafts of 15 to 20 feet currently call at Berth F-3. The Long-liners bring in sashimi tuna to F-3 for processing at their leased facilities in Warehouse 1 within the breakbulk area of the Cargo Terminal.

Berths F-4 to F-6 are located along a 1,950 foot marginal wharf with a depth of 37 feet that accommodates container ships and general cargo vessels. Tugs are berthed at the eastern end of F-6.

Berth F-4 to F-6



Each of the three berths can service container vessels with a maximum beam of 107 feet. The largest vessels currently calling at the Port are container ships with a capacity of 2,600 TEUs and an average design draft of approximately 34 feet.

Berths F-4 to F-6 have an estimated throughput capacity of 215,000 containers per year. The container berth's existing capacity exceeds the projected demand for the Base Case and Military Build-up Case forecasts discussed later in this Report (refer to Figure 4-5 and Figure 4-6). Vessel carriers calling on the Port have the option of using excess capacity on current vessels in service, deploying larger vessels and/or increasing the number of vessels in a service to accommodate increased cargo demand. Larger containerships (4,000 TEUs) currently in the global fleet can be serviced at the Port's F-4 to F-6 berths with the current depth.

Cruise ships call at Berths F-4 and F-5, and sometimes at Berth F-3 depending on availability. The water depth at F-3 is currently about 28 to 30 feet, which is adequate to accommodate some smaller cruise ships. In the past five years, Guam has received four to six cruise ships per year with approximately 800 passengers per call. These vessels stay a partial day in Guam (i.e., arrive 8 am and depart by 6 pm). The *Cruise Terminal Location Report* provided to the Authority in 2009 recommended that cruise operations be relocated to Hotel Wharf, a multipurpose marine facility located west of the Cargo Terminal, to improve the efficiency of the commercial cargo operation, and to potentially accommodate larger cruise vessels. Further details about improvements to Hotel Wharf, which will be partially financed with the 2018 Bonds, are provided in Section 5.2.1.

3.2.1.2. Storage Yard

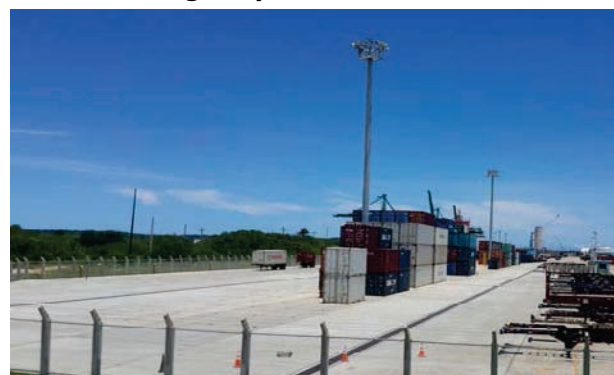
The Port's storage yard originally occupied 12 acres. Over the past three decades, the yard has been expanded several times in accordance with Master Plan recommendations, which has allowed the Port to sustain sufficient capacity to exceed the highest projected annual demand. Most recently, as part of the GCPI Program, an additional 7.6 acres was added to the container cargo area on the east side of the terminal and 1.3 acres to the breakbulk cargo area behind the CFS building.

Currently, empty and transshipment containers stored in the yard are stacked on the ground (grounded). Refrigerated containers are placed on chassis and are stored in the designated refrigerated cargo

Grounded Storage Area in Yard



Container Cargo Expansion Area



area that includes 112 stalls equipped with power receptacles. All other loaded containers are either placed on chassis or on the ground.

Table 3-3 shows the breakdown of the existing cargo yard's total ground slots (TGS) measured in TEUs. The container yard as currently configured has an estimated throughput capacity of approximately 180,000 containers per year. However, the storage yard's capacity could be increased by converting wheeled slots to grounded slots. For example, if 75 percent of the wheeled slots were converted to grounded slots, the yard's capacity increases to approximately 205,000 containers due to higher stacking heights for grounded containers. Additional factors that can increase the throughput capacity of the storage yard include yard configuration and layout, type and amount of equipment deployed, and capital resources invested.

Table 3-3: Port Existing Terminal Ground Slots

Storage Type	TEU TGS
Wheeled Chassis Slots	1,601
Grounded Slots	1,356

Source: The Authority

The container storage yard's existing capacity exceeds the projected demand for the base and military build-up forecast. Similarly, for breakbulk cargo, the nine acres of open storage area exceeds the storage area requirements to accommodate the peak forecasted cargo volumes associated with the military build-up.

3.2.1.3. Terminal Equipment

Container yard operations require specialized equipment used to lift containers to/from a ship and in the storage yard. The Authority currently has three operational rail-mounted ship-to-shore (STS) gantry cranes that are used to lift the containers to/from a ship. On occasion, some visiting vessels will use ship's gear to load and offload cargo. Ro/Ro vessels will load and offload cargo via vessel ramps down to the wharf surface.

Table 3-4 provides additional information on the STS gantry cranes in operation at the Port. The Authority numbers each crane in sequential order based on purchase history. The designation does not represent the number of cranes the Port currently owns. Gantries #4, #5 and #6 were upgraded to "as new" condition in 2009. The STS gantry cranes have an estimated useful life of 20 years based on Guam's environmental conditions, assuming regular preventative maintenance. Periodic upgrades and parts replacement can extend the useful life of the cranes.

Table 3-4: Port's STS Gantry Cranes

Name or Designation	Year Built/Upgraded	Capacity	Height Above WS Rail	Remaining Estimated Useful Life
Gantry #4	1983/2009 In Service at the Port in 2012	40 LT	85 feet	11 Years (2029)
Gantry #5			93 feet	11 Years (2029)
Gantry #6			93 feet	14 Years (2032)

Source: WSP analysis. Data provided by the Authority.

While the Port's three gantry cranes can handle the forecasted container volumes associated with the military build-up, there is limited capacity to accommodate additional breakbulk volumes, as well as minimal flexibility for downtime to address crane breakdowns and crane maintenance.

The Authority plans to acquire an additional crane in the next few years, as described in detail in Section 6.1.4. The additional crane will be used for transferring the portion of breakbulk cargo that is not Ro/Ro and does not require ship's gear for handling. The additional crane will also allow for additional weekly preventive maintenance rotations for the entire STS crane fleet.

Once lifted from a ship, the containers are then placed on chassis, which are moved by off-road terminal yard tractors. Once on the chassis, these containers can either be stored on the chassis in a designated area or they can be removed and then stacked on the ground using a top lifter, a type of container handling vehicle.

Grounded storage containers are handled by eight top lifters, 32 yard tractors, and 15 forklifts owned by the Authority. Wheeled cargo is handled by yard tractors and chassis (carrier-supplied). Forklifts varying in capacity from 5 to 20 tons are used to handle palletized or unitized cargo in the yard, while front loaders, owned and operated by the carriers, handle aggregates and Ro/Ro cargo is driven on and off the vessels by operating staff.

3.2.1.4. Buildings and Structures

The Cargo Terminal includes administrative facilities encompassing approximately 44,000 sf; 27,600 sf of maintenance and repair (M&R) facilities; a warehouse and container freight station providing approximately 79,000 sf of enclosed floor space; and terminal gates and circulation areas. Most of the Authority's structures on the Cargo Terminal listed in Table 3-5 were built and put into service in the late 1960s.

Table 3-5: Major Port Buildings and Structures

Building	SF	Current Use
Administration	25,400	The Authority's administrative offices and leased shipping and shipping related port users' offices
Administration Annex Building	10,400	The Authority's Board Room, Transportation Worker Identification Credential (TWIC) office, the Authority's operations department and spaces used for training and readiness exercises
Port Command Center	4,185	Port's video surveillance, access control, TWIC readers, and communications systems
Warehouse 1	55,000	Occupied by Fishery and Departments of the Authority (Operation Dep. Riggers, Police, etc.). Also used for electrical equipment and supply storage
EQMR Building	24,000	Occupied by the Authority's M&R and supply management staff
Welding Shop	3,600	M&R and equipment shed
Port Police Building	3,530	Occupied by U.S. CBP and port police

Building	SF	Current Use
Container Freight Station (CFS)	24,000	M&R shop, 7,200 sf office area and breakbulk covered storage
Terminal Gates	2,412	Secure entry into and out of the container and breakbulk terminal areas

Source: WSP analysis. Data provided by the Authority.

The Authority has renovated a majority of the structures over the past few years. A fire in June 2015 caused more than \$2 million of damage to the Administration Building, which was refurbished using insurance proceeds without any significant operational and financial interruptions. To enhance Port efficiency and safety, a new Administration Building in a different location is part of the Authority's 5-year CIP, which is being financed with 2018 Bonds, as described in Section 5.2.2.

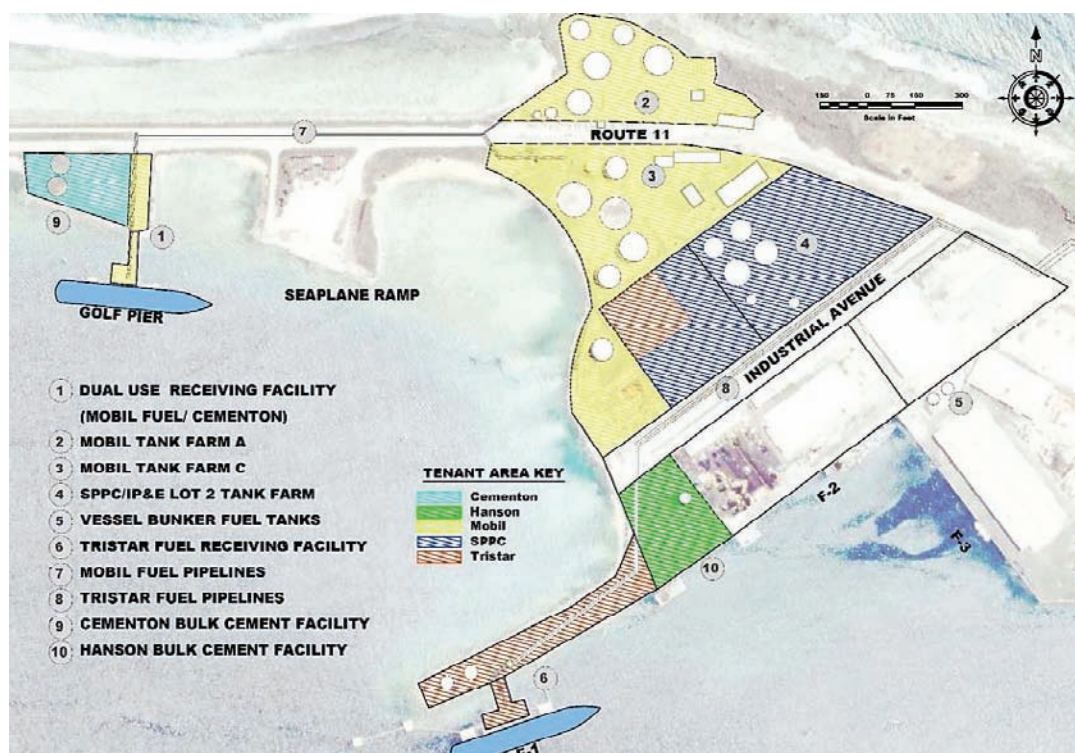
3.2.1.5. Terminal Utilities

Water supply is through a main supply line from the GWA. A dedicated fire suppression water tank with 274,000-gallon capacity, with three fire service pumps, was installed at the Port in 2015. The sewage system is a gravity fall system to a GWA sewage pump station. The storm drainage system is also a gravity system. Power is supplied by GPA's 13.8kV underground lines along Route 11 outside of the terminal. Five electrical Load Centers constructed as hardened structures inside the Cargo Terminal store the Authority's seven Prime Power generators, which were installed in 2016. Other utilities such as telephone, internet and radio communications are available at the terminal.

3.2.2. MARINE INDUSTRIAL TERMINAL

Facilities on the Marine Industrial Terminal, as shown in Figure 3-3, include oil tanks and pipelines, warehouses, a cement silo, and light-gauge sheds scattered throughout this area. The Marine Industrial Terminal area has been leased to private companies since 1969.

Bulk fuels from Mobil Oil and Tristar Agility are delivered to their storage tanks from the adjacent Golf Pier marine transfer facility or from Berth F-1 through terminal piping within the SPPC facility. Typically, liquid bulk products are delivered in bulk to the Marine Industrial Terminal via tanker vessel every 20 days. These products are then distributed by pipeline from their storage tanks to their loading racks, where the products are loaded into tank trucks and distributed to service stations, as well as commercial and government accounts throughout Guam. A portion of the bulk fuels is reloaded at the pier to coastal tankers for distribution to the FSM and CNMI.

Figure 3-3: Marine Industrial Terminal

Source: The Authority and WSP

3.3. TENANTS

The Authority maintains leases and agreements with more than 70 tenants within the Port's facilities as of March 2018. Many companies hold multiple leases for the use of separate Port facilities. The Authority also receives revenue from more than 130 tenants at its two public marinas. The Authority's total revenues in the past five years from leases has averaged approximately \$3 million each year, or approximately 6 percent of total revenue. Table 3-6 presents details on the Authority's tenants whose total lease area exceeds 1,000 sf in 2017, ranked by total lease area.

Table 3-6: Summary of the Authority's Major Tenants and Lease Statistics, Ranked by Total Lease Area

Lessee	Operation/Facility	Area (sf)	Current Lease Year and Term	Years as Port tenant
Tristar Agility	Marine Industrial Terminal, GEDA Main Pipeline	349,955	11/6/2006 Monthly	11
	F1 Fingertip	78,651	4/1/2014 3-5 years	3
South Pacific Petroleum Corp.	Marine Industrial Terminal, Lots 2 and 3A, Associated Pipeline	405,718	11/30/2000 20 years	46

Lessee	Operation/Facility	Area (sf)	Current Lease Year and Term	Years as Port tenant
Mobil Oil Guam Inc.	Marine Industrial Terminal, Lots 1 and 3B	248,873	3/20/2010 10 years	47
		82,799	3/4/2011 10 years	46
Cabras Marine Corporation	Marine Industrial Terminal, Lot 5	223,898	8/1/2011 10 years	28
	Office space, Administration Building	1,580	5/1/2009 Monthly	35
Isla Petroleum and Energy Holdings	New-GEDA easement, F3 Bunker Pits	75,347	5/20/2010 20 years	7
Hanson Permanente Cement	Marine Industrial Terminal	71,874	12/1/2011 10 years	46
Aqua World	Tour operator, Harbor Refuge	65,430	1/1/1985 Monthly	33
Cementon Micronesia	Golf Pier	49,920	12/1/2009 20 years	8
Guam Industrial Services Inc.	Hotel Wharf	20,000	5/5/2017 Monthly	<1
Tyco Electronics Subsea Company	Warehouse space, Bay 5/6	7,200	3/1/2011 Monthly	7
	Warehouse space, Bay 7/8	7,200	5/1/2009 Monthly	9
Smithbridge Guam Inc.	Construction support, Seaplane Ramp	9,040	3/18/2011 Monthly	6
Tidewater Distributors Inc.	Warehouse and office space, Bay 12/13	4,660	5/1/2010 Monthly	13
Norton Lilly International Inc.	Office space, Administration Building	1,965	5/2/2016 Monthly	1
Lotus Pacifica Trading Inc.	Warehouse space, Bay 11	3,726	6/5/2016 Monthly	5
Scuba Marine Sports	Water Sports, Outhouse Beach	6,000	5/1/2009 Monthly	8
Atlantis Guam	Submarine Tour Facility, Harbor of Refuge	5,200	5/9/2009 Monthly	29
Guam Dolphin Marine Sports Club	Water Sports, Family Beach	4,757	5/1/2009 Monthly	8
Consolidated Transportation Services Inc.	Office space, Administration Building	923	12/1/2009 Monthly	8
	Truckers Lot	4,000	4/1/2011 Monthly	
Guam Response Service Limited	Office space, Warehouse space, Harbor of Refuge	4,001	2/25/2010 Monthly	8

Lessee	Operation/Facility	Area (sf)	Current Lease Year and Term	Years as Port tenant
Apra Dive & Marine Sports	Water Sports, Dog Pier	2,450	5/1/2009 Monthly	9
	Water Sports, Family Beach	900	3/26/2015 Monthly	2
Paradise Sports Venture Corporation	Water Sports, Family Beach	3,141	2/14/13 Monthly	5
KALS Corporation	Restaurant, Agat Marina	2,449	11/1/15 5 Years	2
Ambyth Shipping Agency	Office space, Administration Building	1,204	5/1/09 Monthly	22

Source: WSP analysis. Data provided by the Authority.

More than 40 percent of the Port's major tenants have maintained leases with the Authority for a decade or longer. Guam law requires legislative approval for any lease agreements that exceed a five-year term. A previous tenant, Guam YTK Corporation, has filed a lawsuit against the Authority over a lease agreement executed in 2001. Refer to Section 7.6 in this Report for further details.

As of June 2011, PUC approval is required for a lease agreement with the Authority in which the revenue of the total term exceeds \$1 million. Refer to Section 6.1.1 in this Report for a listing of companies that have contributed more than \$100,000 in revenue to the Authority in FY 2017.

The Authority's most recent long-term lease approved by the Legislature was with Cementon in 2009, which was for 20 years plus a 10-year option, for a total of 30 years. The Authority is currently working on securing another long-term lease with Tristar Agility for pipeline easement agreements and F1 Fingertip land lease on the Marine Industrial Terminal. In the past five years, nine companies have vacated the Authority's facilities and four new tenants have taken over the vacated space. As of March 2018, the Authority's facilities are nearing 100 percent occupancy.

SECTION 4. PORT ACTIVITY

This section presents historical trends and forecasts of cargo volumes by fiscal year at the Port. The forecasts were used to support the analysis of the Authority's financial position discussed in Section 6. Given the nominal level of cruise activity at the Port, historical data and projections of cruise passenger volumes or the associated revenues are not included in this Report.

4.1. CARGO TRENDS

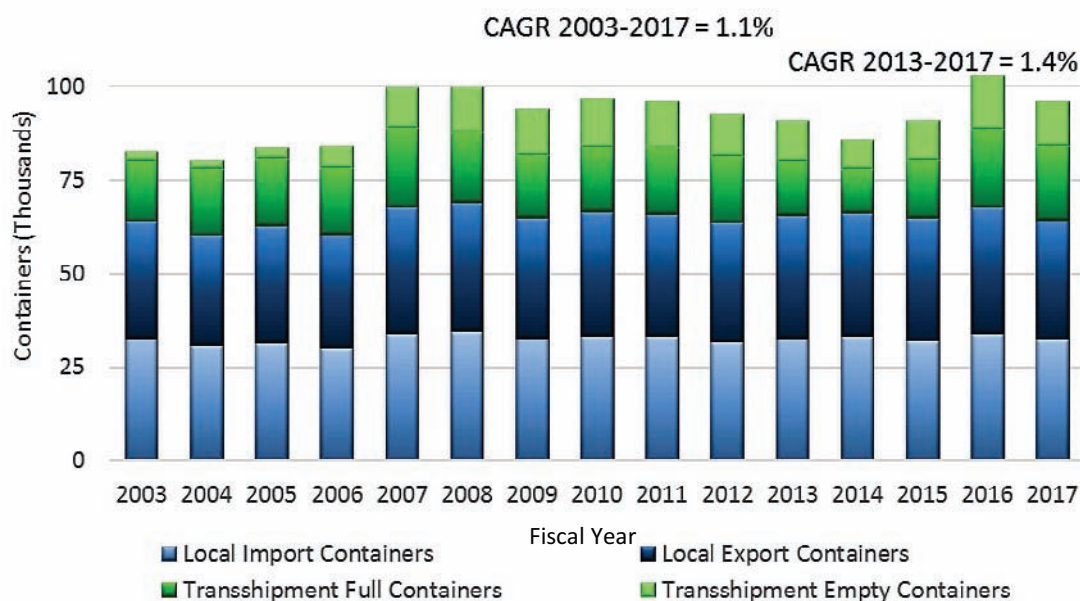
The Port handled approximately 1.2 million revenue tons in FY 2017, comprising approximately 1 million tons in containerized cargo and 170,000 tons in breakbulk cargo. Liquid bulk cargoes do not contribute to the Port's total annual tonnage since the facilities are leased to private companies.

4.1.1. CONTAINERIZED CARGO

On average, approximately 90 percent of the Authority's total cargo tonnage is containerized cargo. The Authority's total revenues in the past five years from containerized cargo has averaged approximately \$37.5 million per year, or approximately 78.5 percent of the Authority's annual revenues.

Total containers handled by the Port have increased in the past 15 years and have grown at a CAGR of 1.1 percent from 2003 to 2017. More recently, container throughput has been increasing at a higher rate with a CAGR of 1.4 percent from 2013 to 2017, as shown in Figure 4-1. In FY 2017, the Port handled 96,055 containers, which is less than half the container terminal's throughput capacity.

Figure 4-1: Port of Guam Historical Container Volumes



Source: WSP analysis. Data provided by the Authority.

In the past five years, local containers have averaged approximately 70 percent of total container cargo throughput, while accounting for approximately 89 percent of total containerized cargo revenues. Local container throughput has been relatively steady from 2003 to 2017 growing at a CAGR of 0.04 percent and averaging approximately 65,000 containers per year. Local cargo flows fluctuate based on Guam's population, major civilian and military projects, and the tourism industry.

In the past five years, transshipment containers have averaged approximately 30 percent of total container cargo throughput, while accounting for approximately 11 percent of total containerized cargo revenues. Transshipment container throughput has ranged from a low of 19,445 containers in 2014 to a peak of 35,288 containers in 2016. As seen in Figure 4-1, the rate of growth or decline in transshipment container volumes is more volatile than local container volumes since the movement of this type of cargo through Guam is discretionary, i.e., could be shipped through Saipan or elsewhere.

Although transshipped containers declined in 2013 and 2014, the percent of the Authority's revenues in FY 2013 and FY 2014 from containerized cargo remained at approximately 78 percent, which denotes the marginal revenues the Authority receives from transshipment activity. The decline was partly a result of temporary service adjustments by MELL that shifted a portion of its transshipment container volumes from Guam to Majuro and Saipan. MELL's revised rotation and transshipment strategy, and the arrival of APL in 2016 has resulted in the return to historical levels of transshipment container volumes to the Port.

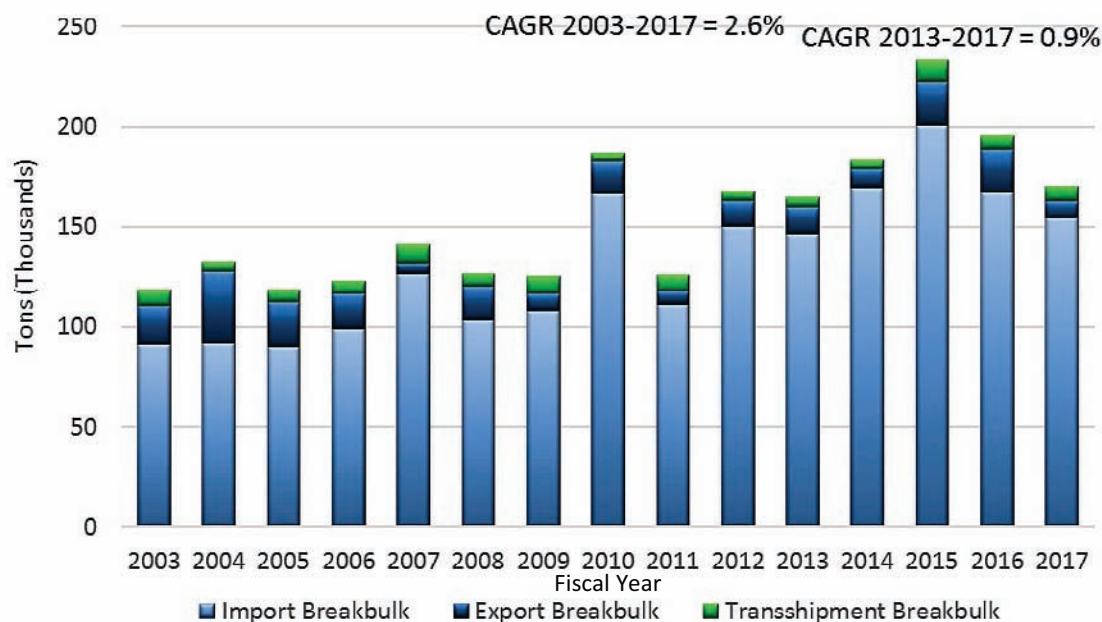
4.1.2. BREAKBULK

Breakbulk cargo includes a variety of commodities that cannot fit into containers and commodities that are more economically transported as breakbulk. The majority of the Port's breakbulk cargo is Ro/Ro cargo, which refers to cargo that is rolled on/off a vessel, including automobiles, unitized and breakbulk cargo on wheeled equipment. Other breakbulk cargo includes steel plates, cement, rebar and pipes, sacks of aggregate, and asphalt.

Apart from automobiles, most breakbulk cargo inbound to Guam is destined for the construction industry. Outbound breakbulk cargo primarily consists of automobiles, construction materials (moving on transshipment routes) as well as fish, scrap metal, and a variety of other miscellaneous cargos.

On average, approximately 10 percent of the Authority's total cargo tonnage is breakbulk cargo. The Authority's total revenues in the past five years from breakbulk cargo has averaged approximately \$3 million each year, or approximately 6 percent of the Authority's annual revenues.

From 2003 to 2017, breakbulk cargo throughput at the Port increased at a CAGR of 2.6 percent. As shown in Figure 4-2, breakbulk cargo volumes have varied significantly year to year but have generally continued to increase over the analysis period. Like containerized cargo, breakbulk activity at the Port is not capacity constrained.

Figure 4-2: Port of Guam Historical Breakbulk Volumes

Source: WSP analysis. Data provided by the Authority.

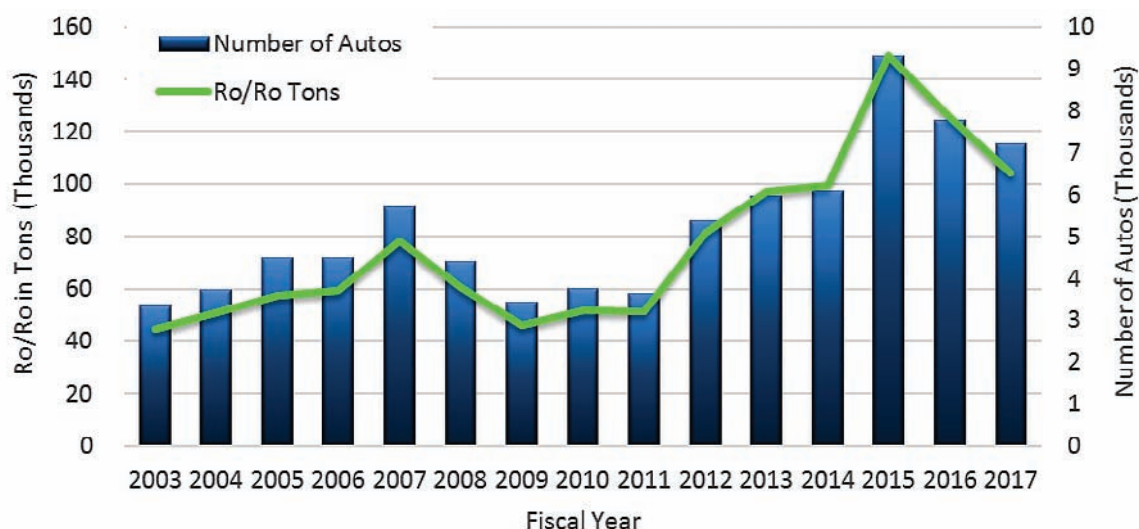
Breakbulk cargo volumes have ranged from a low of 118,266 tons in 2005 to a high of 233,541 tons in 2015. The significant increase in breakbulk volumes in 2015 is attributed to an influx of automobiles in part due to a new dealership opening in Guam, as indicated in Figure 4-2.

Breakbulk transshipment volumes make up less than 5 percent of total breakbulk volumes on average and have varied from a high of 10,769 tons in 2015 to a low of 3,690 tons in 2010.

4.1.2.1. Ro/Ro

Ro/Ro cargo is categorized as a subset of breakbulk cargo in the Authority's statistics. Figure 4-3 shows the total annual Ro/Ro tonnage and automobile throughput at the Port from 2003-2017.

Total Ro/Ro tonnage at the Port increased at a CAGR of 6.3 percent during the 15-year period. It hit a minimum of 44,485 tons in 2009 and a maximum of 149,117 tons in 2015. Total Ro/Ro tonnage jumped in 2015 because of an increase in automobiles brought in by car dealerships on Guam. Total automobile count has increased with a CAGR of 5.7 percent from 2003-2017, with a low of 3,433 in 2009 and a high of 9,291 in 2015.

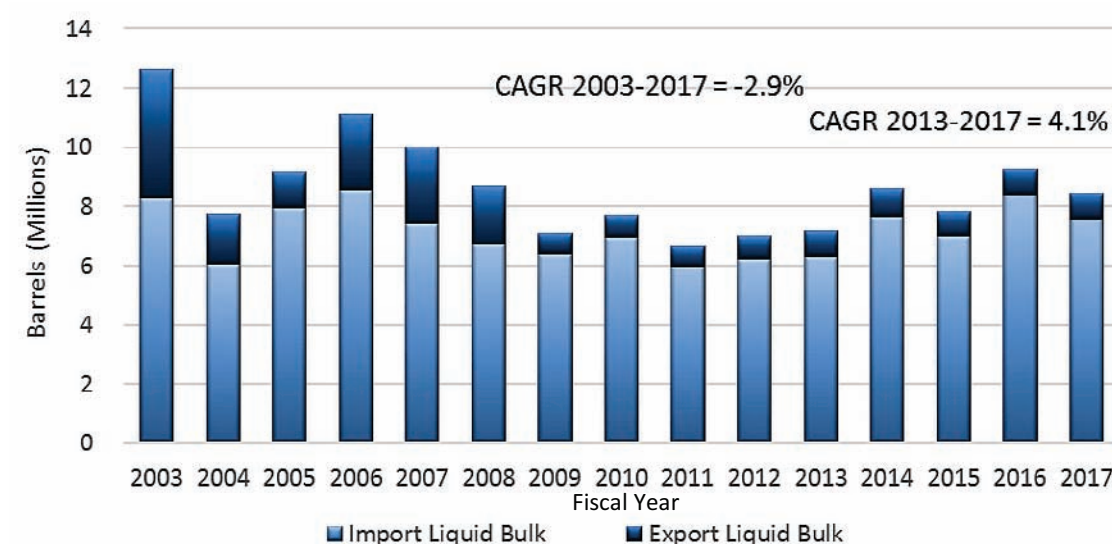
Figure 4-3: Port of Guam Historical Ro/Ro Tonnage and Automobiles

Source: WSP Analysis. Data provided by the Authority.

4.1.3. LIQUID BULK

The Authority's total revenues in the past five years from wharfage and leases related to liquid bulk has averaged approximately \$5 million each year, or approximately 10 percent of the Authority's revenues. A variety of refined petroleum products (e.g., motor gasoline, aviation gasoline, jet fuel, automotive diesel oil and LPG) are delivered by ship to the Authority's leased facilities for storage in onshore non-production storage and distribution facilities in the Marine Industrial Terminal.

Liquid bulk volumes handled by tenants at the Port have decreased in the past 15 years. As shown in Figure 4-4, liquid bulk export volumes transshipped to other islands in the region decreased from 2006 to 2010 due to the Great Recession and the increase in fuel prices during that period. Liquid bulk exports have remained relatively steady since 2010 at approximately 10 percent of total volume. Recently, liquid bulk volumes have increased by a CAGR of 4.1 percent from 2013 to 2017.

Figure 4-4: Port of Guam Historical Liquid Bulk Volumes

Source: WSP analysis. Data provided by the Authority.

4.2. DEMAND FORECAST

4.2.1. METHODOLOGY

Forecasts of expected container, breakbulk and liquid bulk volumes to be shipped through the Port over the next ten years were developed for a Base Case and a Military Build-up Case.

4.2.1.1. Base Case

A multiple regression analysis was used to forecast the Authority's cargo volumes from 2018 to 2027 for the Base Case. The growth rate was constructed by analyzing the results of the economic trends and relationships of the Port's cargo throughput to the growth in population, tourism and construction presented in Section 2 of this Report. The Base Case represents the conservative scenario in which the military build-up does not progress, the civilian and military populations residing in Guam increase at an organic rate, and tourism increases based on historical growth rates.

Given the variability of cargo volumes in the past few years, the growth factor has been applied to a 10-year (2008-2017) average base volume for container, breakbulk and liquid bulk cargoes. A growth factor of 1.1 percent through the first 5 years and 0.90 percent from 2023 onwards was applied to the average base volumes for each cargo type.

4.2.1.2. Military Build-up Case

As noted previously, the military build-up and construction of Marine Corps Base Guam is underway and expected to increase the Port's cargo levels. The build-up will impact cargo volumes in three ways:

- First, DOD contractors will import substantial volumes of materials and supplies. These supplies will come in as containerized, breakbulk, and liquid bulk cargo.
- Second, the DOD will bring in additional active duty personnel and their dependents. This will also increase the flow of household goods, personal vehicles and goods sold at the commissaries and at local businesses. This will primarily impact containerized volumes but will also have an impact on breakbulk and liquid bulk cargos.
- Finally, the realignment will require additional workers from off-island both during and after construction.

The Military Build-up Case updates the forecast estimates presented in the *2013 Master Plan*, supplemented by details from the *Final Supplemental Environmental Impact Statement (SEIS)* prepared for the Joint Guam Program Office (JGPO) in July 2015, the GAO Report *Marine Corps Asia Pacific Realignment* released in April 2017, and the OICC Marine Corps Marianas Overview Brief for GEDA presented in February 2017. Based on the information from these reports and presentations, construction of the build-up is spread over a period of 13 years starting in FY 2017, peaking in FY 2023, and ending in FY 2029 (refer to Figure 2-4). The cargo projections in this Report are presented for the 10-year period between FY 2018 and FY 2027.

For the Military Build-up Case, estimates of additional construction and military supplies that were converted into approximate containers and breakbulk and liquid bulk tonnage in the *2013 Master Plan* supplemented forecasted Base Case volumes to derive military build-up cargo volumes. Table 4-1 presents the Military Build-up Case percentage increase over Base Case volumes for each cargo type during the 10-year period.

Table 4-1: Military Build-up Case Annual Percent Increase Over Base Case Volumes by Cargo Type

Fiscal Year	% Increase in Containerized Cargo	% Increase in Breakbulk Cargo	% Increase in Liquid Bulk
2018	9.0%	6.1%	12.4%
2019	20.4%	13.9%	20.7%
2020	25.3%	17.2%	24.2%
2021	32.2%	21.9%	29.1%
2022	33.3%	22.7%	30.0%
2023	35.1%	23.9%	31.3%
2024	32.7%	22.3%	29.5%
2025	27.6%	18.8%	25.9%
2026	18.7%	12.7%	19.4%
2027	14.4%	9.1%	15.6%

Source: WSP analysis.

4.2.2. CONTAINERIZED CARGO FORECAST

4.2.2.1. Base Case

Figure 4-5 presents the Authority's past two years of container volumes, the Base Case forecast and an estimated annual throughput capacity. The Port container terminal area has more than 47 percent excess capacity compared to the highest forecasted Base Case container volumes. Containerized cargo is projected to increase from approximately 96,000 containers in 2018 to approximately 104,500 containers in 2027. The forecast assumes transshipment cargo will remain at an average of 30 percent of containerized cargo volumes.

Figure 4-5: Containerized Cargo Forecast – Base Case

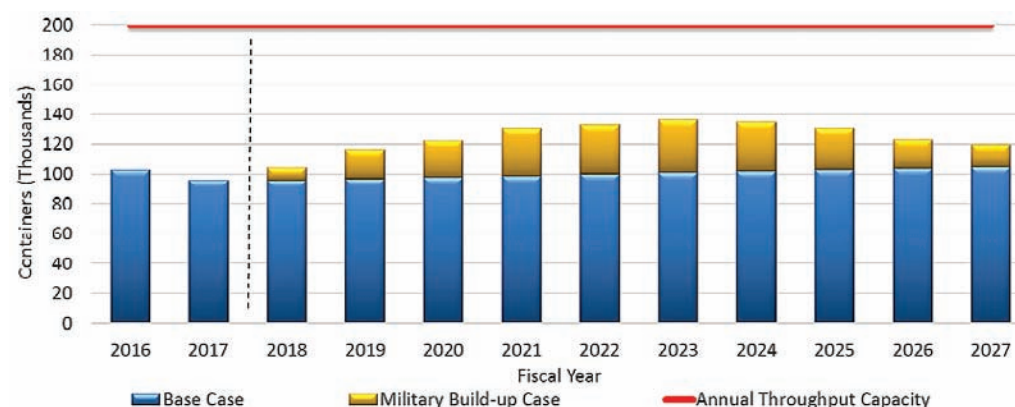


Source: WSP analysis. Data provided by the Authority.

4.2.2.2. Military Build-up Case

As shown in Figure 4-6, the Port container terminal area has more than 30 percent excess capacity compared to the highest forecasted container volumes in the Military Build-up Case. In this case, containerized cargo is projected to increase from approximately 104,000 containers in 2018 to approximately 136,000 containers during the peak build-up in 2023 and then decreasing after the peak to approximately 120,000 containers in 2027.

Figure 4-6: Containerized Cargo Forecast – Military Build-up Case



Source: WSP analysis. Historical data provided by the Authority.

4.2.3. BREAKBULK CARGO FORECAST

4.2.3.1. Base Case

Figure 4-7 presents the Authority's past two years of breakbulk cargo volumes, the Base Case forecast and an estimated annual throughput capacity. The Port breakbulk area has more than 40 percent excess capacity compared to the highest forecasted Base Case breakbulk volumes. The breakbulk volumes are forecasted to grow from approximately 170,000 tons in 2018 to approximately 186,000 tons in 2027.

Figure 4-7: Breakbulk Forecast – Base Case

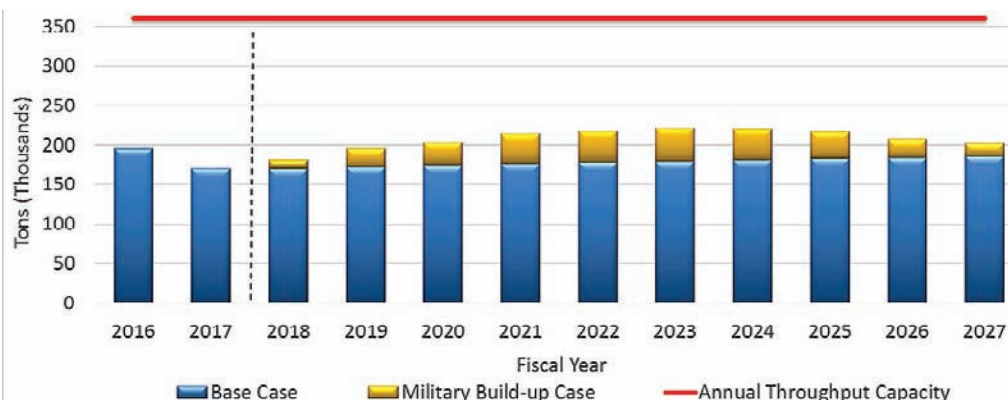


Source: WSP analysis. Historical data provided by the Authority.

4.2.3.2. Military Build-up Case

As shown in Figure 4-8, the breakbulk area in the terminal has more than 35 percent excess capacity compared to the highest forecasted Military Build-up breakbulk volumes. Breakbulk cargo is projected to increase from approximately 180,000 tons in 2018 to approximately 222,000 during the peak build-up in 2023 and then decrease after the peak to approximately 202,000 tons in 2027.

Figure 4-8: Breakbulk Forecast – Military Build-up Case



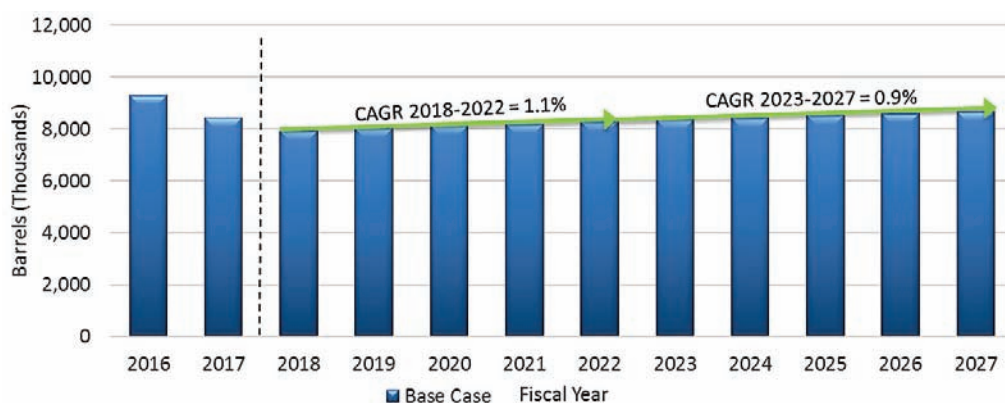
Source: WSP analysis. Historical data provided by the Authority.

4.2.4. LIQUID BULK CARGO FORECAST

4.2.4.1. Base Case

Figure 4-9 presents the past two years of liquid bulk volumes and the Base liquid bulk cargo forecast. The liquid bulk volumes are forecasted to grow from approximately 7.9 million barrels in 2018 to approximately 8.7 million barrels in 2027.

Figure 4-9: Liquid Bulk Forecast – Base Case

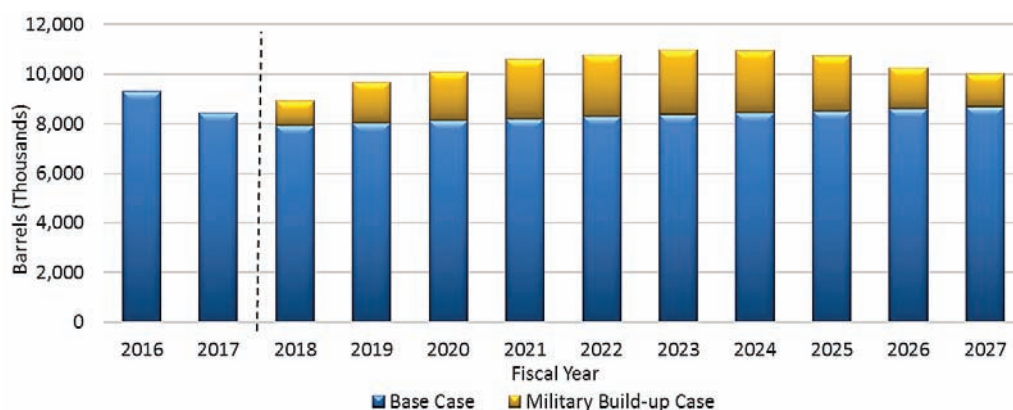


Source: WSP analysis. Historical data provided by the Authority.

4.2.4.2. Military Build-up Case

Figure 4-10 shows the liquid bulk forecast for the Military Build-up Case. Liquid bulk cargo is projected to increase from approximately 8.9 million barrels in 2018 to approximately 11 million barrels during the peak build-up in 2023 and then decrease after the peak to approximately 10 million barrels in 2027.

Figure 4-10: Liquid Bulk Cargo Forecast – Military Build-up Case



Source: WSP analysis. Historical data provided by the Authority.

The Port's estimated cargo volumes from 2018 to 2027 for the Base Case and Military Build-up Case form the basis of the forecasted revenues presented in Section 6.

SECTION 5. PORT IMPROVEMENT PROGRAM

The combination of five decades of active use and the increased cargo-handling demands associated with future island growth and the near-term proposed military build-up has led to the Authority's execution of a PIP (refer to Figure 1-3). The PIP is adjusted annually in relation to the Authority's objectives over the next 5 years. The Authority's facility and equipment needs are evaluated each year, and new projects are included based on the highest priority.

Over the next five years, the Authority will be engaged in PIP projects totaling approximately \$129 million to support the Port's long-term sustainability. Of those, approximately \$74.5 million are CIP projects. The remaining projects focus on sustaining the Authority's facilities and equipment including minor repairs, and renewal and replacements of equipment. This section focuses on the Authority's CIP for FY 2018 to FY 2022.

5.1. CIP FUNDING

The projects included in the 5-Year CIP are to be funded through various sources including 2018 Bonds, Federal Government grants and the Authority's revenues. As shown in Table 5-1, the 2018 Bonds will fund a majority of the CIP projects.

Table 5-1: Sources of Funds for the Authority's CIP Projects

Source	Total (\$000s)	Percent of Total
2018 Bonds	\$47,482	64%
Federal Government Grants ¹	\$15,570	21%
Authority Funds	\$11,407	15%
Total	\$74,459	100%

¹ Includes approximately \$11.4 million in awarded Federal Government grants for 2018-2022 CIP projects and approximately \$4.2 million in anticipated grant funding that has yet to be awarded.

Source: WSP analysis. Data provided by the Authority.

Table 5-2 presents total estimated costs, funding sources and estimated yearly expenditures from FY 2018 to FY 2022 for the Authority's CIP projects. Construction costs were estimated by the Authority and include a contingency factor of 12 to 17 percent depending on the project. The 2018 Bonds will be used to fund the larger CIP projects that will improve the Authority's facilities to support its long-term sustainability.

Table 5-2: The Authority's 5-Year CIP Projects (\$000s)

Projects	Funding Source	2018	2019	2020	2021	2022	Total
Hotel Wharf and Access Road Revitalization and Upgrades	2018 Bonds & \$10M Grant Award	\$2,377	\$14,264	\$7,132	\$0	\$0	\$23,774
New Administration Building	2018 Bonds	\$0	\$8,750	\$5,250	\$1,750	\$1,750	\$17,500
Waterline Replacement and Relocation	2018 Bonds	\$714	\$2,856	\$2,142	\$1,428	\$0	\$7,140
EQMR Building Repairs and Upgrades	2018 Bonds	\$363	\$2,177	\$726	\$363	\$0	\$3,629

Projects	Funding Source	2018	2019	2020	2021	2022	Total
F-1 Fuel Pier Upgrades	Authority Revenues	\$0	\$3,000	\$0	\$0	\$0	\$3,000
Warehouse 1 Repairs and Upgrades	2018 Bonds	\$300	\$1,800	\$600	\$300	\$0	\$2,999
Gate Operating System	Authority Revenues	\$505	\$505	\$505	\$505	\$505	\$2,525
Golf Pier Repairs and Improvements	2018 Bonds	\$244	\$976	\$732	\$488	\$0	\$2,440
Hagåtña Marina Phase III	Grant Application	\$0	\$0	\$2,200	\$0	\$0	\$2,200
Financial Management System	Authority Revenues	\$0	\$1,000	\$1,000	\$0	\$0	\$2,000
Agat Marina Loading Dock Structural Repair	Authority Revenues	\$0	\$0	\$0	\$1,050	\$450	\$1,500
Pre-Disaster Mitigation Hardening of Port Facilities	Authority Revenues & \$1.125M Grant Application	\$0	\$500	\$500	\$500	\$0	\$1,500
Terminal Operating System	Authority Revenues	\$300	\$400	\$300	\$0	\$0	\$1,000
Agat Marina Dock B Repairs	Grant Application	\$0	\$0	\$900	\$0	\$0	\$900
Load Center Refurbishment and Hardening	Authority Revenues & \$385K Grant Award	\$110	\$225	\$178	\$0	\$0	\$513
Harbor of Refuge Renovations	Authority Revenues & \$400K Grant Award	\$250	\$250	\$0	\$0	\$0	\$500
Data Warehousing Systems	Authority Revenues	\$70	\$140	\$140	\$0	\$0	\$350
LAN Infrastructure Upgrades	Authority Revenues	\$0	\$150	\$150	\$0	\$0	\$300
Maintenance and Sustainment of Prime Power Generators	Authority Revenues & \$180K Grant Award	\$67	\$67	\$106	\$0	\$0	\$240
Port Police Security Upgrade	Authority Revenues & \$150K Grant Award	\$40	\$40	\$40	\$40	\$40	\$200
GDP Marina / Agat Marina Wi-Fi Digital Connectivity	Authority Revenues & \$131K Grant Award	\$150	\$0	\$0	\$0	\$0	\$150
Agat Marina Demolition Dock B	Grant Award	\$99	\$0	\$0	\$0	\$0	\$99
TOTAL		\$5,589	\$37,100	\$22,601	\$6,424	\$2,745	\$74,459

Source: WSP analysis. Data provided by the Authority. Capital cost inflation rate provided by GEDA.

5.1.1. GRANTS

The Authority has secured more than \$25 million in federal funding over the past five years for PIP projects, including \$11.4 million in grants that have been awarded for the FY 2018 to FY 2022 CIP. The majority of this funding is from a \$10 million TIGER grant awarded to the Authority in FY 2016 that will cover approximately 42 percent of rebuilding Hotel Wharf to make the dormant facility usable for cargo and cruise operations. The remaining costs of the project are expected to be funded from the 2018 Bonds. Other Authority grants from Federal Government agencies include:

- the Federal Emergency Management Agency for the Port Security Grant Program,
- the U.S. Department of Interior (DOI) Office of Insular Affairs' (OIA) Capital Improvement Grant Program, and
- U.S. Fish & Wildlife Service, Wildlife and Sport Fish Restoration Program.

The Authority has applied for approximately \$4.2 million in Federal Government grants for FY 2018 to FY 2022 CIP projects, which are expected to be awarded to the Authority in the next two years. If the grants are not awarded to the Authority, those CIP projects will be delayed until alternative funding can be secured.

The grants available to the Authority are discretionary and unlike formula grants, are awarded based on merit and eligibility in a competitive process. Since future grant funds possibly available to the Authority are not guaranteed, they are not included in the financial analyses in Section 6 of this Report. However, grant funds for major CIP projects that have been awarded to the Authority are accounted for in the feasibility model.

5.2. CIP PROJECTS

The following list of CIP projects focus on new construction and significant repairs, renovations and upgrades to the Authority's facilities and major equipment required to maintain operations, including appropriately sized and conditioned:

- Berths, wharfs and piers
- Buildings and support facilities
- Utility systems (power/lighting, storm, potable water, fire main, sanitary sewer, fuel)
- Pavements and structures (access roadways, storage, containment and washdown areas)
- Security fencing and gates
- Computerized terminal operating systems (TOS)

5.2.1. HOTEL WHARF AND ACCESS ROAD REVITALIZATION AND UPGRADES

Estimated Cost: \$23.77 Million

The 500-foot-long wharf was constructed in 1948. Damage to the facility includes asphalt surface deterioration; corrosion of sheet piles and bulkhead; and deterioration of bollards, cleats, tie rods, and wharf fender system.

The facility is currently unusable for large vessel mooring and deck surface loading. Repairs to the facility are necessary to obtain USCG certification for compliance as a waterfront facility. The CIP involves two major components; 1) the replacement of Hotel Wharf with a new bulkhead with a modern mooring and fendering system, utilities and upland pavement; and 2) approximately one mile of roadway improvements along Highway 11.

The project is expected to help provide alternative offload and staging areas for specific project cargos, provide flexible cargo/passenger handling acreage as the Port transitions between different modes of operation at the main cargo terminal, and provide for easier management of spikes in cargo activity.

5.2.2. NEW ADMINISTRATION BUILDING

Estimated Cost: \$17.5 Million

The existing 25,400 sf Administration Building was built in the mid 1960's and has two main floors, as well as a Harbor Masters Office on the third floor. The building does not meet current code requirements, and the building's heating, ventilation and air conditioning system; plumbing; communications system; and finishes are inadequate. The first floor of the building meets basic requirements from the American with Disabilities Act of 1990 but the second and third floor are not fully accessible.

The Port's 2013 *Master Plan* recommends a new building be constructed away from the cargo storage area, and the existing building be demolished, after completion of the new Port Administration Complex. Demolition of the former Administration building in its current location will allow for much needed operational expansion of the Equipment and Maintenance Division. Demolition of the existing building is expected after FY 2022 at an estimated cost of \$1.65 million.

This project replaces the 50-year old Administration Building that has reached its design life expectancy. A modern administrative headquarters offers the Authority potential for additional revenue generation from leasing office space and growth for tenant expansion.

5.2.3. WATERLINE REPLACEMENT AND RELOCATION

Estimated Cost: \$7.14 Million

The waterlines at the Port are over 50 years old, and some are asbestos pipes. The water system contains a 10-inch looped system that covers the waterfront and the Port buildings on the west end of the terminal. Six-inch lines connect from the 10-inch lines to fire suppression systems within the buildings and hydrants in the container yard. Smaller lines were connected to the buildings for potable water service.

The waterlines are prone to numerous water leaks, with nine major leaks detected in the past three years occurring during required pressurization testing, resulting in waterline leaks. This project will include replacement of all existing waterlines and relocation of the mainline running through the Port's container yard, which would be relocated to run along Route 11.

The new lines will improve water pressure to meet local building codes, National Fire Protection Association and USCG requirements for firefighting operations. Relocation of the main line will also provide for unobstructed and undisturbed yard operations in the event of repairs.

5.2.4. EQMR BUILDING REPAIRS AND UPGRADES

Estimated Cost: \$3.63 Million

The EQMR building is a concrete structure constructed in 1967-1968 with a floor area of 24,000 sf. The building requires continuous inspections of the concrete followed by necessary concrete spall repairs to protect the structural integrity of the structure. Salt penetration is visible on the

interior roof and vertical structural elements, which indicates that water and salt intrusion are occurring.

This project will bring the various building structures in compliance with the latest uniform building code (UBC) requirements and prevent further deterioration. In addition to concrete repair work, a new roofing membrane, ventilation, and lighting will be installed to meet code required lighting levels. This project will also restore the structure reducing the risk of concrete falling from height and will subsequently mitigate the extreme safety hazards and unsafe working environment for the Authority's maintenance and operations personnel, as well as Port tenants and users.

5.2.5. F-1 FUEL PIER UPGRADES

Estimated Cost: \$3 Million

F-1 is located on the Marine Industrial Terminal and is used by Tristar and SPPC. It consists of six berthing and mooring dolphins, two storage tanks and pipelines. The containment area around the storage tanks has experienced undermining of the slab on the western side of the pier due to wave and tidal action. The shore protection issues and associated undermining occurring could jeopardize the operation of the F-1 facility. This project provides shore protection reconstruction on the western edge of the F-1 finger.

Additionally, the series of catwalks that connect the mooring dolphins requires maintenance and repair including the installation of a passive cathodic protection. The vertical support structures, i.e., piles and pile caps, will also require repairs and additional cathodic protection to prevent accelerated corrosion of structural steel in and above the splash zone. These repairs may include fiber wrapping of the steel piles with an epoxy application to both preserve and strengthen the weakened structural elements. This project will also repair damage from past storms that have severed the electrical utilities at the western-most dolphin to power the windlass for mooring operations.

5.2.6. WAREHOUSE 1 REPAIRS AND UPGRADES

Estimated Cost: \$3 Million

Warehouse 1 was constructed in 1967-1968. It has a floor area of 54,000 sf. The building requires continuous inspections of the concrete followed by necessary concrete spall repairs to protect the structural integrity of the structure. Salt penetration is visible on the interior roof and vertical structural elements, which indicates that water and salt intrusion are occurring.

This project will bring the various building structures in compliance with the latest UBC requirements and prevent further deterioration. In addition to concrete repair work, a new roofing membrane, ventilation, and lighting will be installed to meet code required lighting levels. This project will also restore the structure reducing the risk of concrete falling from height and will subsequently to mitigate the extreme safety hazards and unsafe working environment for the Authority's maintenance and operations personnel, as well as Port tenants and users.

5.2.7. GATE OPERATING SYSTEM

Estimated Cost: \$2.53 Million

In 2017, the Authority replaced its in-house operating system with Navis N4 TOS, the premier software for ports and terminal operators throughout the world. Currently, a basic manual gate system is embedded in the TOS. This application is used to manage the truck entry and exit transactions at the terminal in the first development stage of the new terminal gate facilities.

This project replaces the basic manual system with a semi-automated gate operating system (GOS) based on OCR technology and equipped with X-ray, gamma ray and radiation portal monitor (RPM) scanners and radio frequency identification (RFID) technology. This type of GOS is modular and the detailed configuration can be tailored to meet local security regulations as defined by Port Police and U.S. Customs. This advanced functionality is not currently an element of the Port's TOS as now configured. The GOS, hardware and software, is obtainable from numerous specialized gate suppliers and can be easily configured to interface with the current TOS. The GOS is to be fully integrated with the TOS including the Port Security Systems and the U.S. Customs System.

5.2.8. GOLF PIER REPAIRS AND IMPROVEMENTS

Estimated Cost: \$2.44 Million

The existing Golf Pier is operated by Mobil Oil Guam under a use and management agreement. The facility consists mainly of a fueling pier with pile supported trestle, dock and dolphins for berthing and securing vessels. Port-owned fuel lines run the length of the pier and lead to a wye between Port-owned Tank Farm A and Mobile-owned Tank Farm C. Three corroded fuel lines and pipe supports were replaced by the Authority in 2015. Golf Pier is suitable for use by other tenants and shippers for unloading LPG and cement. Cementon has rights to use the pier to offload cement that is stored in their facility adjacent to the pier.

While the Golf Pier is operational, significant concrete spalling has been observed in previous inspections at the interface of the steel piles and the concrete pile caps. The catwalks for this facility need upgrading as the graphite walking surfaces do not meet USCG requirements. The dolphins are no longer connected by catwalks and therefore not easily usable for vessel mooring. Vessels have been mooring to shore side bollards since the dolphins are inaccessible.

The project involves repairs to the concrete pile caps and piles, upgrading the graphite walking surfaces, installation of catwalks to mooring dolphins, and replacement of the security fencing. Services will include site development for the repairs to Golf Pier to meet the latest federal/local regulations and UBC requirements.

5.2.9. HAGĀTÑA MARINA PHASE III

Estimated Cost: \$2.2 Million

The southern portion of the Gregorio D. Perez Marina (also known as Agaña Boat Basin, Hagåtña Marina) consists of an East and West Basin separated by a fill area that provides

parking and also holds the Harbor Patrol Offices and restroom facility. The East Basin and West Basin contain marina floats for recreational, charter and public agency (fire and police department, Port of Guam) boats.

The West Basin has been updated with new sheet piles and new floats as a first phase of repairs. The floats in the East Basin have been replaced under this first phase of construction. The second phase replaced the sheet piles around the eastern boat basin. The third phase and final phase of the renovations will replace the sheet pile bulkhead along the northern edge of the marina. As part of that project, there are new floats in both the East Basin and West Basin with power and water services at the boat slips.

The funding source for this project will be solely from a discretionary grant from the U.S. DOI OIA. If the grant is not approved, the Authority will delay the project until future funding is available. Revenues from the marina are not pledged to the 2018 Bonds.

5.2.10. FINANCIAL MANAGEMENT SYSTEM

Estimated Cost: \$2 Million

The Authority's financial systems interface with the TOS for billing and management reporting. The current JD Edwards World system is outdated and not fully integrated with the new TOS installed in 2017 requiring additional manual processing. The TOS must be able to access the financial data to support invoicing. For efficient and flexible invoicing the TOS must keep track of all container moves and general cargo handlings executed on the terminal.

This project would involve a transition to JD Edwards Enterprise 1 operating on an Oracle or SQL Database. The proposed system upgrade would improve efficiency and security and maximize features to improve system productivity having a seamless interface with the TOS. Manual processing would be eliminated through the implementation of a property management system module, a contract management system module and a job cost module.

5.2.11. OTHER PROJECTS

Estimated Cost: \$7.3 Million

The remaining projects in the CIP are less time sensitive and expected to be funded based upon the Authority's available flow of funds and grant awards. The majority of the Authority's CIP projects estimated to cost less than \$1.5 million are partially or fully-funded by Federal Government grants. These projects include technology system upgrades, marina and Harbor of Refuge repairs and renovations, security improvements and enhancements to the Authority's electrical Load Center hardened structures and generators within those buildings to support Port resiliency.

SECTION 6. FINANCIAL POSITION OF THE AUTHORITY

In the role of consulting engineer for the Authority, WSP developed a feasibility assessment based on proposed capital investments. **WSP is not a Registered Municipal Advisor, and, as such, is not registered with the Securities and Exchange Commission.** Accordingly, the financial terms and the details of anticipated debt issuances were provided to WSP by GEDA, the Authority, and the bond issuance team. WSP assembled and analyzed these parameters to develop the financial forecasts provided in this Report and requisite cash flow pro-forma estimates were based upon information provided to WSP.

6.1. AUTHORITY OPERATING REVENUES

The Authority's total FY 2017 operating revenue was \$50.9 million⁶. The Authority's operating revenues are presented in Table 6-1 and categorized as shown in the Financial Audit.

Table 6-1: Authority FY 2017 Operating Revenues

Operating Revenue Category	FY 2017 Revenues (\$000s)	% of Total Revenues
Cargo throughput charges ¹	\$30,715	60.35%
Equipment and space rental	\$8,769	17.23%
Crane surcharges	\$6,092	11.97%
Wharfage charges	\$4,986	9.80%
Other operating income	\$332	0.65%
Total Operating Revenues	\$50,894	100%

¹Cargo throughput charges include FMF (refer to Section 6.1.3)

Source: WSP analysis. Data provided by the Authority.

Cargo throughput charges represent the majority of the Authority's operating revenue. These charges include port entry fees, dockage, cargo handling, FMF, fuel surcharge, equipment rental, and security fees. Equipment and space rental revenues include facility usage charges for the Marine Industrial Terminal, Gregorio D. Perez and Agat marinas, and Harbor of Refuge, as well as demurrage charges on cargo stored on the terminal.

Crane surcharges are fees assessed for the use of the Authority's STS gantry cranes (refer to Section 6.1.4). Wharfage charges are fees assessed for the use of the Authority's wharfs, berths or piers. Other operating income includes cruise passenger charges, bunkering fees and fees for administrative and other special services. In addition to these operating revenues, the Authority receives funds from various grants from the Federal Government, as discussed in Section 5.1.1.

⁶ Audited Income Statement, FY 2017

6.1.1. SOURCES OF OPERATING REVENUES

The Authority's revenues are generated primarily from various fees and tariffs charged to users and tenants of Port facilities and to agents, carriers and shippers for the movement of cargo through the Port.

Table 6-2 presents the Authority's FY 2017 revenues by major company (those that contribute more than \$100,000 in annual revenues to the Authority), ranked by their percent contribution to total revenues. Apart from Matson and APL, the Authority's revenues from carriers with services at the Port are through intermediary shipping agents.

Table 6-2: The Authority's Major Companies, Ranked by Percent of Total FY 2017 Revenue Contribution

Company	FY 2017 Revenues (\$000s)	% of Total FY Revenues	Port Role
Matson	\$ 24,976	49.07%	Carrier
Consolidated Transportation Services	\$ 5,601	11.01%	Agent and Tenant
APL	\$ 4,781	9.39%	Carrier
Marianas Steamship Agencies	\$ 4,280	8.41%	Agent and Tenant
Tristar Terminals Guam, Inc.	\$ 2,218	4.36%	Fuel Pier Manager - Tenant
Ambyth Shipping & Trading Inc.	\$ 2,143	4.21%	Agent and Tenant
Mobil Oil Guam, Inc.	\$ 1,461	2.87%	Fuel Pier Manager - Tenant
Norton Lilly International	\$ 1,399	2.75%	Agent and Tenant
Inchcape Shipping Services	\$ 415	0.81%	Agent
South Pacific Petroleum Corp.	\$ 357	0.70%	User and Tenant
Cementon Micronesia, LLC	\$ 238	0.47%	Cement Facility - Tenant
Tyco Electronics Subsea Company	\$ 154	0.30%	User and Tenant
Cabras Marine Corp	\$ 122	0.24%	User and Tenant
Lotus Pacifica Trading, Inc	\$ 119	0.23%	User and Tenant
Hanson Permanente Cement	\$ 112	0.22%	Tenant
Other	\$ 2,519	4.95%	Users and Tenants
TOTAL	\$50,894	100%	

Note: Numbers may not add up due to rounding.

Source: WSP analysis. Data from the Authority.

6.1.2. PLEDGE OF REVENUES FOR 2018 BONDS

Approximately 84 percent of the Authority's operating revenue (calculated based on FY 2017 operating results) are pledged to the payment of the 2018 Bonds and approximately 16 percent are not pledged. The Authority's pledged operating revenues include the following:

- Cargo throughput revenue (excluding FMF). This includes cargo handling charges and dockage fees
- Equipment and space rentals, including demurrage, except for the marina fees listed below
- Wharfage charges
- Other operating income, including special services

In addition to operating revenues, the Authority receives a small amount of non-operating revenue, including interest income, that is also pledged to the 2018 Bonds.

The following revenue streams are not pledged to the payment of the 2018 Bonds, due primarily to their dedicated or restricted uses:

1. FMF to provide funding for high-priority maintenance, replacement and repair of the Authority's facilities associated with cargo operations. These fees generated approximately \$1.5 million in revenue in FY 2017. Refer to Section 6.1.3 in this Report for further details.
2. Crane surcharge fees levied on carriers using the Authority's gantry cranes. These fees generated approximately \$6.1 million in revenue in FY 2017. Refer to Section 6.1.4 in this Report for further details.
3. The Authority's public marina revenues from the operation of the Agat Marina and the Gregorio D. Perez Marina in Hagåtña. Facility usage fees for these marinas generated approximately \$270,000 in revenue in FY 2017.

A description of the FMF and crane surcharge is provided in the following subsections.

6.1.3. FACILITY MAINTENANCE FEE

Implemented in 2010, the FMF is a separate charge to provide funding for the maintenance, replacement, and repair of the Authority's cargo facilities, and is not a pledged revenue for the 2018 Bonds. Pursuant to the Terminal Tariff #1 effective in 2018, the Authority assesses an FMF of \$33.64 per loaded container or \$1.82 by revenue ton for breakbulk. The fee is assessed to users of the Authority's facilities for the receipt and delivery of cargo to and from vessels and/or in connection with the receipt, delivery, checking, care, custody and control of cargo. Similar to other Port tariffs, the FMF has no sunset provision, and can be adjusted in the future, subject to approval of a tariff petition by the PUC.

The Authority has received an average of approximately \$1.55 million per year in FMF revenues over the past five years. The FMF revenues are deposited in a special fund, which the Authority reported had a balance of approximately \$3.35 million as of March 2018. The expenditure of funds from the FMF fund must be approved by the Authority Board as part of its annual budget approval process. The Authority allocates 100 percent of annual FMF revenues for certain Sustainability Plan projects within the Cargo Terminal each year. However, the expenditure of the allocated funds for each project can occur over several years.

6.1.4. CRANE SURCHARGE

The crane surcharge was implemented in December 2012 after approval by the PUC. Crane surcharge revenue is dedicated to cover the costs of the operation and maintenance (O&M) of the existing three gantry cranes, the purchase of future cranes, as well as any debt service for cranes. Although crane surcharge revenues are not pledged to the payment of the 2018 Bonds, in certain circumstances as described in Section 6.4.4, these revenues are taken into account in the calculation of net revenues available for debt service. As with the FMF, there is no sunset provision on the crane surcharge, and it can be adjusted in the future with the concurrence of the PUC.

The Authority currently assesses a crane surcharge of \$125 for each loaded container, and \$5 per ton, up to a maximum of \$105 per lift, for breakbulk cargo handled by the Port's STS gantry cranes. Crane surcharge fees apply only to the first carrier using the cranes for transshipment loaded containers.

The Authority has received an average of approximately \$6 million per year in crane surcharge revenues over the past five years. The allocation of crane surcharge revenue is summarized in Table 6-3. Crane surcharge rates, throughput volumes and allocation percentages are based on explicit parameters established by the PUC in initiating the crane surcharge, and can only change with the concurrence of the PUC.

Table 6-3: Distribution of Crane Surcharge Revenue for Containerized Cargo

Containers		Crane Surcharge Funds		
		Split of Proceeds:	to Crane Operating Account	to Crane Reserve Account
Baseline	First 44,400 loaded containers* and 42,010 breakbulk tons	Percentage	90.5%	9.5%
		Revenue	\$5,212,845	\$547,205
Above Baseline	All additional loaded containers* and breakbulk tonnage	Percentage	0%	100%
		Revenue	\$0	All (\$548,525 in FY 2017)

* First lift only for transshipment containers

Source: WSP analysis.

CRANE OPERATING ACCOUNT

As depicted in Table 6-3, 90.5 percent of crane surcharge revenues for the first 44,400 loaded containers and the first 42,010 tons of breakbulk, equal to \$5,212,845 if the baseline volumes are met, are used for annual crane O&M, and any annual debt service allocable to the cranes. The Authority currently tracks these crane surcharge revenues and intends to create a separate crane operating account (the "CO Account") for such funds upon the issuance of the 2018 Bonds.

As of March 2018, the Authority had approximately \$6.7 million of crane surcharge revenues that will be allocable to the CO Account when it is established. In addition to crane maintenance expenditures, the revenues will be used to demolish two older, decommissioned cranes currently on the Cargo Terminal, as well as to demolish any future decommissioned cranes.

CRANE RESERVE ACCOUNT

The Authority must deposit 9.5 percent of surcharge revenues for the first 44,400 loaded containers and the first 42,010 tons of breakbulk, equal to \$547,205 if the baseline volumes are met, into the CR Account. All crane surcharge revenues generated from cargo in excess of these baseline volumes are exclusively deposited into the CR Account.

The additional crane surcharge revenue from the cargo volumes in excess of the baseline that were deposited into the CR Account totaled \$548,525 in FY 2017, and is estimated to be approximately \$643,000 in FY 2018 in the Base Case forecast.

The Authority is required to update the PUC annually on the status of the CR Account. The CR Account is restricted to funding future acquisition of cranes, extraordinary corrective maintenance events, or to cure a default in crane-related debt. A report is required to be filed with the PUC and the Speaker of the Legislature within five days of any drawdown from the CR Account. The Authority has not drawn on the CR Account since its inception.

The balance in the CR Account is approximately \$4.1 million as of March 2018. The Authority contributed an average of approximately \$1.2 million per year into the CR Account in FY 2016 and FY 2017.

CRANE REPLACEMENTS

The Crane Reserve Account is intended to fund future gantry crane purchases. Table 6-4 summarizes the estimated cost and schedule of replacing the cranes. For each crane replacement, the current cost estimate is escalated to the Year of Expenditure (YOE) estimate, assuming a 3.0 percent inflation each year.

Table 6-4: Estimated Cost and Year of Future Port Crane Replacements

Crane	First Year of Operation	Estimated Cost (YOE)
New Gantry #7	2021	\$10,000,000
Gantry #4 Replacement	2029	\$13,842,339
Gantry #5 Replacement	2029	\$13,842,339
Gantry #6 Replacement	2032	\$15,125,897
Gantry #7 Replacement	2039	\$18,602,946

Note: Excludes the cost of demolition of decommissioned cranes

Source: WSP analysis

The three existing Gantries #4, #5 and #6 were purchased using an Australia and New Zealand (ANZ) Banking Group equipment loan. Upon the 2018 Bond issuance, the Authority will no longer have outstanding loans on any cranes. The CO Account will be used to pay the portion of 2018 Bond debt service attributable to the repayment of the crane loan. Once that crane-related debt service obligation is completed in 2028, about \$1.2 million per year in crane surcharge revenues will become available for other crane operating uses.

The Authority intends to initiate the procurement of a new crane (Gantry #7) in FY 2019. It takes approximately two years to develop specifications, bid, receive delivery, and install the new crane, so Gantry #7 is planned to be commissioned in 2021. Based on current projections, approximately \$6.2 million of CR Account funds will be available to pay for the new Gantry #7. The balance of the estimated \$10 million purchase will come from other Authority funds and/or from a future loan backed solely by crane surcharge revenue.

Future funds in the CR Account will be used to acquire new cranes once the cranes have reached their useful life. Whether these purchases will be entirely cash-funded or require future loans, backed solely by the crane surcharge revenues, depends upon the actual throughput of the Port over the next 10+ years. Should analysis in any year show a deficiency in the forecasted CR Account, the Authority can petition the PUC to increase the crane surcharge fee, increase the percent allocation to the CR Account, or alter the baseline cargo thresholds.

6.2. TARIFF STRUCTURE

The main driver of the Authority's future revenues is tariff rates. Some 250+ different rates are included in the official tariff table (refer to Appendix 1). Vessel and cargo services, which generate the majority of tariff revenues, represented approximately 82 percent of the Authority's operating revenue in FY 2017. Charges that are directly tied to the movement of freight including cargo throughput charges, crane surcharge and wharfage charges, totaled \$41.8 million out of the \$50.9 million operating revenues in FY 2017.

Some tariffs, such as direct labor billings, are directly charged based on the cost to the Authority of the provided services. Other tariffs, such as the FMF and Crane Surcharge, are specific levies to ensure the Authority has funds to maintain Port facilities and equipment in a state of good repair.

6.2.1. TARIFF RATE SETTING

Pursuant to PL 30-52, the Guam PUC is charged with oversight of the Authority's tariffs. All changes to the Authority rates and charges must be approved by the PUC through the tariff petition process. This involves the Authority submitting a tariff petition, allowing 30 days for public review and comment, and the PUC's independent consultant reviewing the petition to ensure that the proposed rates are "just and reasonable."

The PUC has assisted the Authority in achieving the following tariff revisions over the past eight years:

1. FY 2010 Interim Tariff – 3.4% increase effective March 2010
2. New FMF effective March 2010 - \$25 per container, \$1.35 per breakbulk ton
3. FY 2012 Tariff Adjustment – 3.95% increase effective March 2012
4. New Crane Surcharge – Additional \$105 per load January 2013; increased to \$125 effective March 2013
5. FY 2014 Interim Tariff – 5.65% increase in rates effective March 2014
6. FY 2016 Tariff Adjustment – 7% increase in rates effective December 2015
7. FY 2017- FY 2021 Tariff Adjustments as follows:
 - 7% increase implemented June 1, 2017
 - 7% increase implemented January 1, 2018
 - 1% increase effective October 1, 2018
 - 1% increase effective October 1, 2019
 - 1% increase effective October 1, 2020

The tariff adjustment for FY 2017 to FY 2021 was based upon a financial analysis carried out by WSP in 2016. The rates were determined by calculating the Port's revenue requirements to support projected operating and capital costs and debt service under a set of conservative assumptions. The Authority provides an annual status report to the PUC, from which the proposed annual rate increase is reviewed and potentially adjusted to ensure that the charges are sufficient to fund Port operations and meet the Authority's obligations.

In addition, in connection with the Authority's most recent tariff adjustment, the PUC required the Authority to return to the PUC for a rate investigation in the event of any of the following: Guam's consumer price index (CPI) exceeds 4 percent per year; cargo throughput exceeds or falls short of budgeted projections by more than 5 percent, the Authority receives a final legal judgment to pay a disputed arbitration award to Guam YTK Corporation (refer to Section 7.6 for further details); or if the physical condition of the gantry cranes requires replacement at least two or more years earlier than planned.⁷

The crane surcharge is not scheduled to change during the FY 2017 to FY 2021 five-year petition period. However, the Authority is able to submit additional rate adjustment petitions if needed. It is contemplated that the Authority will submit a new 5-year tariff petition in FY 2021 to set tariffs for FY 2022 to FY 2026. For this Report, tariffs are assumed to increase after FY 2022 such that tariff revenue collections grow with inflation and projected throughput.

6.3. AUTHORITY OPERATING EXPENSES

The Authority's operating expenses include the cost of operating and maintaining Port facilities and equipment, providing cargo services to shippers, and managing and administering the Port's business. Cash operating expenditures (excluding depreciation and other non-cash items⁸) in FY 2017 were approximately \$38.5 million. Labor and employee benefits represent the majority of the Authority's annual operating costs. A breakdown of the Authority's cash operating expenses, with the labor and employee benefit allocated amongst the categories, is provided in Table 6-5.

General and administrative expenses include salaries/wages, insurance benefits, retirement benefits, other benefits, other personnel costs, communications, leases/rentals, utilities, general insurance, damage/shortage/write-down/supplies, advertising, agency and management fees, crane performance management contract, professional services, contractual services, earthquake expenses, and typhoon expenses.

⁷ PAG Docket 17-01 5-Year Tariff Increase, April 28, 2017

⁸ Approximately \$1.97 million in Retiree Healthcare Benefit costs included as operating expenses in the FY 2017 financial statements reflect non-cash adjustments related to implementation of Governmental Accounting Standards Board (GASB) Statement 73.

Table 6-5: The Authority's Cash Operating Expenses in FY 2017

O&M Category	FY 2017 (\$000s)	% of Total
General and Administrative	\$18,517	48.10%
Stevedoring services	\$3,993	10.37%
Terminal Services	\$2,809	7.30%
Equipment maintenance	\$5,640	14.65%
Transportation services	\$5,550	14.42%
Facility maintenance	\$1,987	5.16%
Total Operating Expenses	\$38,496	100%

Note: Numbers may not add up due to rounding

Source: WSP analysis. Data from audited FY 2017 financial statements.

The Authority employs approximately 356 staff. This includes about 121 in Management and Administration, 47 for equipment maintenance, 61 for transportation services, 59 for stevedoring services, 29 for facility maintenance, and 39 for terminal service.

6.4.2018 BONDS

The proceeds of the 2018 Bonds will be used to fund certain capital improvements (as described in Section 5.1), refinance certain existing loans of the Authority, fund a deposit to the 2018 Bonds debt service reserve fund and all or a portion of certain other reserves, fund capitalized interest on a portion of the 2018 Bonds associated with the Authority's capital improvement projects, and pay certain costs related to the issuance and sale of the 2018 Bonds.

The original principal amount of the Authority's four outstanding loans was \$24 million. As of March 31, 2018, the total balance of the loans was \$20 million with an estimated annual debt service of \$1.16 million. All four loans will be repaid prior to, or simultaneously with, the issuance of the 2018 Bonds.

Table 6-6 summarizes the projected application of the 2018 Bonds.

Table 6-6: Projected Application of the 2018 Bonds

Source of Funds (\$000s)	
Bond Proceeds	\$72,600
Uses of Funds (\$000s)	
Retirement of Existing Authority Loans	\$16,000 ¹
Deposit to Construction Fund	\$47,482
Debt Service Reserve	\$5,600
Capitalized Interest	\$2,096
Cost of Issuance/Underwriter Discount	\$1,422

¹Estimated outstanding loan balance as of July 2018 as provided by the Authority

Source: The Authority and Citi

6.4.1. RESERVE FUNDS AND FINANCIAL POLICIES

Pursuant to the Indenture, the Authority will establish a Debt Service Reserve Fund, an Operation and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund. The Debt Service Reserve Fund will initially be funded with proceeds of the 2018 Bonds in an amount equal to maximum annual debt service on the 2018 Bonds. Pursuant to the Indenture, amounts in the Debt Service Reserve Fund (other than certain interest earnings or amounts in excess of the minimum requirement) can only be used for the purpose of paying debt service on the 2018 Bonds in the event of a deficiency.

The Indenture requires that the Authority build up and maintain an amount equal to 90 days of budgeted operating expenditures. The Authority expects to fund this amount, estimated to be approximately \$9 million, using existing unrestricted cash upon the closing of the 2018 Bonds. Amounts on deposit in the Operation and Maintenance Reserve Fund can only be used for paying O&M expenses.

The Renewal and Replacement Reserve Fund, expected to be gradually funded over a five-year period, requires that the Authority maintain a minimum amount equal to the greater of (i) of 30 days of budgeted costs of the Port capital renewals, replacement, major repairs or reconstruction, or (ii) \$3 million in the Renewal and Replacement Reserve Fund. As of April 2018, the Renewal and Replacement Reserve Fund requirement is estimated to be approximately \$3 million. Amounts on deposit in the Renewal and Replacement Reserve Fund can be used solely to pay renewal and replacement cost budgeted by the Authority.

In addition to funds required under the Indenture, the Authority Board has established an additional Management Reserve Account and Liquidity Policy in accordance with best practices. The Management Reserve Account will be held within the Capital Improvement Fund in the Indenture with an amount established pursuant to a policy set by the Authority Board. In April 2018 the Authority Board adopted a resolution establishing a policy for a Working Capital Reserve for O&M equal to 180 days of budgeted operating expenditures which, as of April 2018, is estimated to be approximately \$20 million.

The Authority intends to fund the Working Capital Reserve for O&M over a five-year period. Amounts on deposit in the Working Capital Reserve for O&M can be used at the Authority Board's discretion and are intended to ensure the Port's continuity of services by providing additional liquidity and a source of funding to the Authority in addressing unforeseen obligations and unexpected, short-term cash flow demands.

6.4.2. ANNUAL DEBT SERVICE AND COVERAGE REQUIREMENTS

The feasibility of the 2018 Bond issuance was analyzed by WSP based on the assumptions provided by the Authority, GEDA, and Citigroup Global Markets Inc. (Citi). Key feasibility requirements include the following:

- The Port operates in a manner sufficient to meet all cargo demand while maintaining its assets to industry standards.

- Net debt service coverage of at least 1.25x is met in every year for all Port debt, in accordance with the 2018 Bond covenants.
- All debt reserve requirements are met for all debt instruments.

6.4.3. SOURCES AND USES (HISTORICAL AND PROFORMA)

The Authority's operating revenues grew at an average rate of about 5 percent between 2013 and 2017, from \$41.9 million to \$50.9 million. Operating expenses, on the other hand, have remained almost unchanged between 2013 and 2017, increasing from \$38 million to \$40.5 million.

Operating Revenues Forecast

Total revenues in FY 2018 are forecasted to be \$56.7 million based on the forecasted cargo volumes in the Base Case, which is about 11.4 percent higher than FY 2017. This increase is due to the following reasons:

- The Authority implemented a 7 percent tariff increase in June 2017. For FY 2017, this increase in the tariff only affected revenue for the last fiscal quarter. Revenues in FY 2018 reflect this tariff increase for the full fiscal year.
- The Authority implemented a second 7 percent tariff increase in January 2018, which will also increase revenues in FY 2018.
- Throughput in FY 2018 is forecasted to increase by 1.1 percent.

Total revenues in FY 2019 are forecasted to be \$58.7 million, which is 3.5 percent higher than the FY 2018 forecast. This growth is due to a forecasted 1.1 percent increase in throughput, a 1 percent tariff increase scheduled to be implemented October 1, 2018, and the full-year effect of the January 2018 7 percent tariff increase.

Revenues in FY 2020 and FY 2021 are forecasted to grow at 2.0 percent (1.1 percent due to forecasted growth in cargo throughput, and 1 percent due to tariff rate increases scheduled to be implemented at the start of the FY 2020). It should be noted that crane surcharge revenues are not affected by the tariff increases (i.e., the crane surcharge of \$125 per lift remains constant throughout the forecast period).

Operating revenues in FY 2022 are forecasted to grow at approximately 3.0 percent, due to forecasted growth in cargo throughput of 1.1 percent and an assumed tariff rate increase of 1.9 percent. Operating revenues in subsequent years are assumed to grow at approximately 3.0 percent, through a combination of forecasted annual throughput growth of 0.9 percent and assumed tariff rate increases of 2.1 percent per year. These assumed long-term tariff rate increases and throughput growth rates are expected to balance long-term inflation of 3.0 percent⁹.

⁹3.0 percent inflation rate provided by the GEDA

Except for crane surcharges, operating revenues are forecast to grow at an average rate of about 2.6 percent from FY 2018 to FY 2022, for the reasons cited above. Crane surcharges grow at 1.1 percent, which is driven by the throughput growth rate.

Under the Military Build-up Case, forecasted operating revenues are an average 23.4 percent higher than the Base Case through FY 2022.

Operating Expenses Forecast

Operating expenses in FY 2018 are forecasted to be \$40.6 million, which represents a 5.7 percent increase from FY 2017. Inflation of 3 percent is a portion of this increase, with the rest attributed to a planned salary increase for the Authority's employees. After FY 2019, salary expenses are expected to increase at the level of inflation. Planned operating expenses have been revised as follows:

- For FY 2019, operating expenses are forecasted to be \$42.8 million, which is 5.4 percent higher than the FY 2018 forecast. FY 2019 is the final year of planned salary increases based on a report by the Authority's consultant Alan Searle & Associates, coupled with assumed inflation of 3 percent.
- Operating expenses in subsequent years in the forecast period increase by 3 percent, the same rate as inflation. It should be noted that Authority has excess labor capacity to support increasing operations. Thus, the labor expense forecast is not impacted by forecasted growth in cargo throughput.

The Authority's operating expenses are not anticipated to materially increase in the Military Build-up Case.

6.4.4. FINANCIAL FEASIBILITY ANALYSIS

Table 6-8 summarizes the Authority's historical and proforma funding sources and uses. This is presented as a cash flow waterfall, which shows cash flow available to pay the pro-forma debt service (CFADS) from the 2018 Bond issuance, and the resulting coverage ratios.

Debt Service Coverage Calculation

Line 21 in the cashflow waterfall in Table 6-8 shows net operating revenues prior to adjustments pursuant to the Indenture.

These adjustments are as follows:

1. Removal of crane surcharge revenues in line 23, which are restricted to pay for crane maintenance and certain crane related debt service. This represents about \$6.3 million in FY 2018 and grows to \$6.5 million in FY 2022.
2. Removing marina revenues of approximately \$241,000 in FY 2018, line 24.
3. For purposes of calculating net revenues available for debt service, approximately \$4 million of the crane surcharge revenues that are spent on crane maintenance are applied to reduce O&M expenses, as shown in line 25.

4. Line 27 shows the approximately \$1.2 million in crane surcharge revenues that is currently paid as debt service for the existing ANZ Equipment Loan. This amount would be available for the inclusion in net revenues available to pay the proforma debt service, and as such is added back in line 27.

Line 28 shows the total net revenues available for debt service as calculated in accordance with the Indenture.

Line 32 shows the Indenture debt service coverage ratio (DSCR), which is line 28 (net revenues available for debt service) divided by line 31 (pro forma Senior Lien debt service). Since the 2018 bond issuance has an interest capitalization period, the FY 2019 DSCR is quite high at 7.68x. The full Senior Lien debt service is to be paid starting FY 2020, when the DSCR is 2.10, which increases to 2.14x in FY 2022. Lines 35-38 for existing Subordinate loan debt service are equal to zero in the forecast period starting in FY 2019 since those loans are retired by the 2018 Bonds or otherwise defeased by the Authority.

Since the DSCR requirement is 1.25x, the forecasted DSCRs are significantly higher than the required ratio.

Sensitivity Analysis with Military Build-up Case

Since operating revenues are tied to throughput growth, but operating expenses are not (due to the Port's excess capacity to handle additional throughput without incurring incremental costs), the effect of the military build-up on the Authority's net operating revenues and DSCR would be positive, particularly during the actual military build-up years. The difference in DSCRs for the Military Build-up Case compared to the Base Case is summarized in Table 6-7. The cash waterfall for the Military Build-up Case is provided in Table 6-9.

Table 6-7: Debt Service Coverage Ratio

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
DSCR (Base Case)	N/A	7.68x	2.10x	2.08x	2.14x
DSCR (Military Build-up Case)	N/A	13.19x	4.04x	4.60x	4.84x

Source: WSP Analysis

Table 6-8: Historical and Projected Operating Results/Proforma (Cash Flow Waterfall) in Thousands

Line No	Description	Historical					'13 - '17 Avg. Annual Growth	Projected					18 - '22 Avg. Annual Growth
		2013	2014	2015	2016	2017		2018	2019	2020	2021	2022	
1	Operating Revenues:												
2	Cargo throughput charges (1)	\$25,606	\$26,408	\$28,463	\$31,921	\$30,715	4.7%	\$34,707	\$36,029	\$36,789	\$37,566	\$38,776	2.8%
3	Equipment and space rental (2)	\$7,503	\$7,709	\$8,563	\$8,753	\$8,768	4.0%	\$9,673	\$10,032	\$10,239	\$10,450	\$10,779	2.7%
4	Crane surcharges	\$4,118	\$5,670	\$5,846	\$6,285	\$6,092	10.3%	\$6,254	\$6,323	\$6,392	\$6,462	\$6,534	1.1%
5	Wharfage charges	\$4,185	\$4,493	\$4,617	\$4,930	\$4,986	4.5%	\$5,721	\$5,939	\$6,065	\$6,193	\$6,392	2.8%
6	Other operating income (3)	\$498	\$672	\$1,182	\$319	\$332	-9.6%	\$323	\$335	\$342	\$350	\$361	2.8%
7	Total Operating Revenues	\$41,910	\$44,952	\$48,671	\$52,208	\$50,894	5.0%	\$56,678	\$58,658	\$59,827	\$61,020	\$62,842	2.6%
8	Annual Growth in Total Operating Revenues		7.3%	8.3%	7.3%	-2.5%		11.4%	3.5%	2.0%	2.0%	3.0%	
9	Operating Expenses:												
10	General and Administrative (4)	\$16,444	\$15,383	\$14,566	\$18,532	\$18,517	3.0%	\$19,319	\$20,353	\$20,963	\$21,592	\$22,240	3.6%
11	Stevedoring services	\$3,558	\$3,320	\$3,024	\$3,934	\$3,993	2.9%	\$4,166	\$4,389	\$4,520	\$4,656	\$4,796	3.6%
12	Terminal Services	\$1,997	\$1,918	\$1,810	\$2,576	\$2,809	8.9%	\$2,930	\$3,087	\$3,180	\$3,275	\$3,373	3.6%
13	Equipment maintenance	\$7,651	\$5,398	\$4,903	\$5,447	\$5,640	-7.3%	\$6,368	\$6,708	\$6,910	\$7,117	\$7,330	3.6%
14	Transportation services	\$4,780	\$4,395	\$3,980	\$4,964	\$5,550	3.8%	\$5,790	\$6,100	\$6,283	\$6,471	\$6,665	3.6%
15	Facility maintenance (5)	\$1,496	\$1,513	\$1,294	\$1,665	\$1,987	7.4%	\$2,073	\$2,184	\$2,249	\$2,317	\$2,386	3.6%
16	COLA/Supplemental Annuities (6)	\$2,158	\$2,320	\$2,780	\$0	\$0	N/A	\$0	\$0	\$0	\$0	\$0	0.0%
17	Retiree Healthcare Benefits (7)	\$0	\$0	\$0	\$1,938	\$1,971	N/A	\$0	\$0	\$0	\$0	\$0	0.0%
18	Total Operating Expenses	\$38,082	\$34,245	\$32,367	\$39,176	\$40,467	1.5%	\$40,645	\$42,821	\$44,105	\$45,428	\$46,791	3.6%
19	Annual Growth in Total Operating Expenses		-10.1%	-5.5%	21.0%	3.3%		0.4%	5.4%	3.0%	3.0%	3.0%	
20	Other Income (Interest Earnings)	-	-	-	-	-		\$116	\$68	\$78	\$91	\$99	
21	Net Operating Revenues	\$3,828	\$10,707	\$16,304	\$13,032	\$10,427	28.5%	\$16,149	\$15,905	\$15,800	\$15,683	\$16,150	
22													
23	LESS: Crane surcharges	\$4,118	\$5,670	\$5,846	\$6,285	\$6,092		\$6,254	\$6,323	\$6,392	\$6,462	\$6,534	
24	LESS: Marina Revenues	\$247	\$214	\$213	\$260	\$270		\$241	\$241	\$241	\$241	\$241	
25	PLUS: Crane O&M Paid from Crane surcharges (8,9)	\$3,898	\$3,898	\$3,898	\$3,898	\$3,898		\$3,898	\$3,919	\$3,918	\$3,918	\$3,918	
26	PLUS: Non-cash accounting adjustments (10)	\$0	\$0	\$0	\$1,320	\$2,020		\$0	\$0	\$0	\$0	\$0	
27	PLUS: Crane surcharge used for debt service	\$0	\$0	\$0	\$0	\$0		\$1,196	\$1,196	\$1,197	\$1,197	\$1,197	
28	Net Revenues Available for Debt Service (11)	\$3,361	\$8,721	\$14,143	\$11,705	\$9,983		\$14,748	\$14,457	\$14,282	\$14,095	\$14,491	
29	Senior Lien Debt Service												
30	Series 2018 Bonds (12)	n/a	n/a	n/a	n/a	n/a		\$0	\$1,883	\$6,787	\$6,776	\$6,776	
31	Total Senior Lien Debt Service	n/a	n/a	n/a	n/a	n/a		\$0	\$1,883	\$6,787	\$6,776	\$6,776	
32	Indenture Debt Service Coverage	n/a	n/a	n/a	n/a	n/a		n/a	7.68x	2.10x	2.08x	2.14x	
33													
34	Subordinate Debt Service (13)												
35	2010 ANZ Equipment Loan	\$361	\$361	\$361	\$361	\$361		\$361	n/a	n/a	n/a	n/a	
36	2012 ANZ Equipment Loan	\$913	\$1,217	\$1,217	\$1,217	\$1,217		\$1,217	n/a	n/a	n/a	n/a	
37	2014 Bank of Guam SLE Loan	-	-	\$452	\$452	\$1,470		\$1,470	n/a	n/a	n/a	n/a	
38	2015 USDA Loan	-	-	\$324	\$324	\$324		\$324	n/a	n/a	n/a	n/a	
39													
40	Total Subordinate Lien Debt Service	\$1,274	\$1,578	\$2,354	\$2,354	\$3,372		\$3,372	-	-	-	-	
41													
42	Total Revenues Available After Debt Service							\$12,777	\$14,022	\$9,013	\$8,907	\$9,374	

Source: WSP analysis. Data provided by the Authority.

Note: Interest rate and debt service assumptions provided by the GEDA and Citi. Projected debt service assumes a 6.5% interest rate on the 2018 Bonds.

- (1) FMF revenues are included in cargo throughput charges and totaled \$1.5 million in FY 2017. Historical FMF revenue ranged from \$1.4 million in FY 2013 to \$1.75 million in FY 2016. FMF funds are spent on designated projects approved by the Authority Board during its annual budget process. Expenditures on FMF-funded facility maintenance are shown in line 15 under Facility maintenance.
- (2) Includes Marina revenues
- (3) Other operating income includes Special Services, Harbor of Refuge, and Other Operating Income
- (4) Includes Management and Administration, General Expenses, Insurance, and Utilities

- (5) Facility maintenance costs are fully covered by the FMF revenues, which are included in line 2 under Cargo Throughput Charges. FMF funds are spent on designated projects approved by the Authority Board, and are not necessarily undertaken in the same year the FMF fees were collected. FMF-funded facility maintenance projects may take multiple years to complete. Thus, FMF revenue and facility maintenance expenditures will not necessarily match in any given year.
- (6) Beginning in Fiscal Year 2016, the Authority re-categorized and re-allocated certain amounts paid to the Government related to retiree benefits to various other "Operating Expenses" categories pursuant to GASB 73. See "—Pension and Other Post-Retirement Benefit Plans—GASB 73."
- (7) Pursuant to GASB 73, beginning in Fiscal Year 2016, the Authority recategorized certain amounts paid to the Government related to retiree healthcare benefits. These costs are not forecast as they do not impact the cash available for debt service (see note 10 below).
- (8) Crane O&M costs are not reported directly in audited financials; rather, these costs are incorporated into line items such as Equipment Maintenance.
- (9) Includes only 90.5% of the first 44,400 containers (and breakbulk) subject to the \$125 crane surcharge
- (10) Reflects non-cash adjustments related to implementation of GASB 73 and deferred inflows and outflows of resources related to pension and other post-employment benefits.
- (11) Revenues available for debt service pursuant to the Indenture. FMF are not pledged (i.e. about \$1.5M are excluded, but added back as an offset to O&M costs). See Section 6.2 for details of pledged revenue
- (12) For the purpose of this analysis, debt service on 2018 bonds is assumed to begin in FY 2019
- (13) Subordinate debt will be fully repaid in conjunction with the issuance of the 2018 Bonds

Table 6-9: Military Build-Up Projected Operating Results/Proforma (Cash Flow Waterfall) in Thousands

Line No	Description	Historical					'13 - '17 Avg. Annual Growth	Projected					18 - '22 Avg. Annual Growth
		2013	2014	2015	2016	2017		2018	2019	2020	2021	2022	
1	Operating Revenues:												
2	Cargo throughput charges (1)	\$25,606	\$25,408	\$28,463	\$31,921	\$30,715	4.7%	\$37,756	\$43,228	\$45,880	\$49,384	\$51,412	8.0%
3	Equipment and space rental (2)	\$7,503	\$7,709	\$8,563	\$8,753	\$8,789	4.0%	\$10,494	\$11,972	\$12,688	\$13,633	\$14,183	7.8%
4	Crane surcharges	\$4,118	\$5,670	\$5,846	\$6,285	\$6,092	10.3%	\$6,813	\$7,607	\$7,998	\$8,530	\$8,698	6.3%
5	Wharfage charges	\$4,185	\$4,493	\$4,617	\$4,930	\$4,988	4.5%	\$6,214	\$7,102	\$7,532	\$8,101	\$8,432	7.9%
6	Other operating income (3)	\$498	\$672	\$1,182	\$319	\$332	-9.6%	\$351	\$402	\$426	\$459	\$477	8.0%
7	Total Operating Revenues	\$41,910	\$44,952	\$48,671	\$52,208	\$50,894	5.0%	\$61,628	\$70,310	\$74,524	\$80,106	\$83,203	7.8%
8	Annual Growth in Total Operating Revenues		7.3%	8.3%	7.3%	-2.5%		21.1%	14.1%	6.0%	7.5%	3.9%	
9	Operating Expenses:												
10	General and Administrative (4)	\$16,444	\$15,383	\$14,566	\$18,532	\$18,517	3.0%	\$19,319	\$20,353	\$20,963	\$21,592	\$22,240	3.6%
11	Slevedoring services	\$3,558	\$3,320	\$3,024	\$3,934	\$3,993	2.9%	\$4,166	\$4,389	\$4,520	\$4,656	\$4,796	3.6%
12	Terminal Services	\$1,997	\$1,918	\$1,810	\$2,676	\$2,809	8.9%	\$2,930	\$3,087	\$3,180	\$3,275	\$3,373	3.6%
13	Equipment maintenance	\$7,651	\$5,396	\$4,903	\$5,447	\$5,640	-7.3%	\$6,368	\$6,708	\$6,910	\$7,117	\$7,330	3.6%
14	Transportation services	\$4,780	\$4,395	\$3,980	\$4,984	\$5,550	3.8%	\$5,790	\$6,100	\$6,283	\$6,471	\$6,665	3.6%
15	Facility maintenance (5)	\$1,496	\$1,513	\$1,294	\$1,685	\$1,987	7.4%	\$2,073	\$2,184	\$2,249	\$2,317	\$2,386	3.6%
16	COLA/Supplemental Annuities (6)	\$2,156	\$2,320	\$2,790	\$0	\$0	N/A	\$0	\$0	\$0	\$0	\$0	0.0%
17	Retiree Healthcare Benefits (7)	\$0	\$0	\$0	\$1,938	\$1,971	N/A	\$0	\$0	\$0	\$0	\$0	0.0%
18	Total Operating Expenses	\$38,082	\$34,245	\$32,367	\$39,176	\$40,467	1.5%	\$40,645	\$42,821	\$44,105	\$45,428	\$46,791	3.6%
19	Annual Growth in Total Operating Expenses		-10.1%	-5.5%	21.0%	3.3%		0.4%	5.4%	3.0%	3.0%	3.0%	
20	Other Income (Interest Earnings)	-	-	-	-	-		\$121	\$80	\$107	\$140	\$170	
21	Net Operating Revenues	\$3,828	\$10,707	\$16,304	\$13,032	\$10,427	28.5%	\$21,104	\$27,570	\$30,526	\$34,818	\$36,582	
22													
23	LESS: Crane surcharges	\$4,118	\$5,670	\$5,846	\$6,285	\$6,092		\$6,813	\$7,607	\$7,998	\$8,530	\$8,698	
24	LESS: Marina Revenues	\$247	\$214	\$213	\$260	\$270		\$241	\$241	\$241	\$241	\$241	
25	PLUS: Crane O&M Paid from Crane surcharges (8,9)	\$3,898	\$3,898	\$3,898	\$3,898	\$3,898		\$3,903	\$3,924	\$3,924	\$3,924	\$3,924	
26	PLUS: Non-cash accounting adjustments (10)	\$0	\$0	\$0	\$1,320	\$2,020		\$0	\$0	\$0	\$0	\$0	
27	PLUS: Crane surcharge used for debt service	\$0	\$0	\$0	\$0	\$0		\$1,196	\$1,196	\$1,197	\$1,197	\$1,197	
28	Net Revenues Available for Debt Service (11)	\$3,361	\$8,721	\$14,143	\$11,705	\$9,983		\$19,151	\$24,843	\$27,407	\$31,168	\$32,763	
29	Senior Lien Debt Service												
30	Series 2018 Bonds (12)	n/a	n/a	n/a	n/a	n/a		\$0	\$1,883	\$6,787	\$6,776	\$6,776	
31	Total Senior Lien Debt Service	n/a	n/a	n/a	n/a	n/a		\$0	\$1,883	\$6,787	\$6,776	\$6,776	
32	Indenture Debt Service Coverage	n/a	n/a	n/a	n/a	n/a		n/a	13.19x	4.04x	4.60x	4.84x	
33													
34	Subordinate Debt Service (13)												
35	2010 ANZ Equipment Loan	\$361	\$361	\$361	\$361	\$361		\$361	n/a	n/a	n/a	n/a	
36	2012 ANZ Equipment Loan	\$913	\$1,217	\$1,217	\$1,217	\$1,217		\$1,217	n/a	n/a	n/a	n/a	
37	2014 Bank of Guam SLE Loan	-	-	\$452	\$452	\$1,470		\$1,470	n/a	n/a	n/a	n/a	
38	2015 USDA Loan	-	-	\$324	\$324	\$324		\$324	n/a	n/a	n/a	n/a	
39													
40	Total Subordinate Lien Debt Service	\$1,274	\$1,578	\$2,354	\$2,354	\$3,372		\$3,372	-	-	-	-	
41													
42	Total Revenues Available After Debt Service							\$17,733	\$25,687	\$23,739	\$28,042	\$29,806	

Source: WSP analysis. Data provided by the Authority.

Note: Interest rate and debt service assumptions provided by the GEDA and Citi. Projected debt service assumes a 6.5% interest rate on the 2018 Bonds.

- (1) FMF revenues are included in cargo throughput charges and totaled \$1.5 million in FY 2017. Historical FMF revenue ranged from \$1.4 million in FY 2013 to \$1.75 million in FY 2016. FMF funds are spent on designated projects approved by the Authority Board during its annual budget process. Expenditures on FMF-funded facility maintenance are shown in line 15 under Facility maintenance.
- (2) Includes Marina revenues
- (3) Other operating income includes Special Services, Harbor of Refuge, and Other Operating Income
- (4) Includes Management and Administration, General Expenses, Insurance, and Utilities

- (5) Facility maintenance costs are fully covered by the FMF revenues, which are included in line 2 under Cargo Throughput Charges. FMF funds are spent on designated projects approved by the Authority Board, and are not necessarily undertaken in the same year the FMF fees were collected. FMF-funded facility maintenance projects may take multiple years to complete. Thus, FMF revenue and facility maintenance expenditures will not necessarily match in any given year.
- (6) Beginning in Fiscal Year 2016, the Authority re-categorized and re-allocated certain amounts paid to the Government related to retiree benefits to various other "Operating Expenses" categories pursuant to GASB 73. See "—Pension and Other Post-Retirement Benefit Plans—GASB 73."
- (7) Pursuant to GASB 73, beginning in Fiscal Year 2016, the Authority recategorized certain amounts paid to the Government related to retiree healthcare benefits. These costs are not forecast as they do not impact the cash available for debt service (see note 10 below).
- (8) Crane O&M costs are not reported directly in audited financials; rather, these costs are incorporated into line items such as Equipment Maintenance.
- (9) Includes only 90.5% of the first 44,400 containers (and breakbulk) subject to the \$125 crane surcharge
- (10) Reflects non-cash adjustments related to implementation of GASB 73 and deferred inflows and outflows of resources related to pension and other post-employment benefits.
- (11) Revenues available for debt service pursuant to the Indenture. FMF are not pledged (i.e. about \$1.5M are excluded, but added back as an offset to O&M costs). See Section 6.2 for details of pledged revenue
- (12) For this analysis, debt service on 2018 bonds is assumed to begin in FY 2019
- (13) Subordinate debt will be fully repaid in conjunction with the issuance of the 2018 Bonds

SECTION 7. RISKS

The Authority's ability to generate revenues is directly linked to the Port's cargo throughput levels, which is heavily dependent on the local population, tourism and the U.S. military presence, all of which are dependent on world economic, social and political events. As such, key risks to the Port include the following:

7.1. CARGO THROUGHPUT FLUCTUATIONS

Cargo throughput is driven by factors outside of the Authority's control. These include the economic strength of Guam, the continued strategic importance placed on Guam by the U.S. military, and the popularity of Guam as a tourist destination, primarily for Japanese and South Korean tourism. In addition, transshipment through Guam of goods destined for nearby islands depends upon the cargo carriers' deployment strategy and relations with inter-island carriers as to how these islands are to be served.

Throughput risk is mitigated by taking a conservative approach to the forecasting methodology and not including the planned military build-up in the cargo projections and associated revenues utilized for the Base Case analysis. Furthermore, as an island with no other civilian port and the need to import most food and materials, the Port enjoys a dominant position for receiving ocean cargo. In this position, there is little elasticity to tariff increases should they be necessary to ensure the economic viability of the Port.

7.2. GEOPOLITICAL ISSUES

Guam is a critical asset for the U.S. military. Guam is positioned geographically to constitute an extended homeland defense perimeter, protecting the U.S. West Coast and Hawaii from acts of aggression. In addition, a strong U.S. presence in the Pacific demonstrates active support for Japan, South Korea, Australia and other Pacific Rim allies.

Because of its location and strategic importance to the U.S., North Korea has threatened to strike Guam and other U.S. adversaries could target Guam in the future. These recent world events are mitigated by bolstering U.S. military presence in the Pacific and ensuring the Port of Guam is operational for military readiness. The military bases on Guam and the permanently based Terminal High Altitude Area Defense system, or THAAD, at Anderson AFB in Guam allows rapid response to any threat to stability of the Asian region or a threat to the U.S. originating in the Asian region.

Guam's military assets include:

- U.S. Sovereign Territory with no need for host nation consent to pre-position war munitions, to deploy weapons or to conduct operations;
- Air Force, Navy and Marine Corps, USCG, National Guard and Reserve facilities with substantial munitions, fuel supply, communications, command and control capabilities;
- Unencumbered air and sea space for live fire and special operations training including Explosive Ordnance Disposal, SEALs and other joint war fighting and operational readiness initiatives;

- Navy wharves with ability to handle three million pounds of ordnance (net explosive weight); and
- Significant airfield capability including dual, two-mile-long runways with contingency, mobilization and surge capable civilian airfields on Guam and CNMI.

7.3. REVENUE FLUCTUATIONS

While operating costs are relatively fixed (in the short term), the Authority's revenues fluctuate based upon the Port's cargo throughput. Throughput can ebb and flow due to changes in economic conditions, carrier business decisions, weather, and other factors. Revenue risk is moderated by several factors as follows:

- The Indenture allocates the Authority's revenues into multiple restricted accounts.
- Tariffs can be changed with the approval of the PUC. Should throughput or capital needs change significantly, changes in tariff rates can be implemented to maintain necessary revenue.
- The forecasted revenues from the military build-up are not included in the financial analysis.
- Capital and operating costs can be adjusted to reduce spending if required.

7.4. LEGISLATION FOR GENERAL FUND CONTRIBUTION

Guam legislation originally enacted by the Legislature in 1997 requires the Authority, GPA and the Airport to collectively transfer an aggregate sum of \$3.5 million from operating surpluses generated each fiscal year to the General Fund of the Government. Services provided by the General Fund consist of police and fire protection, and provision and maintenance of road systems and other government facilities. The Transfer Legislation further provides that the proportionate contribution of each of the above agencies shall be determined by a formula decided upon by the Governor in consultation with the governing boards of each such agency. However, the Governor has never provided such a formula. Other than in 1997, when the Authority transferred an aggregated amount of approximately \$3.5 million to the General Fund of the Government, the Authority has never transferred money to the General Fund pursuant to the Transfer Legislation. To the best of the Authority's knowledge, GPA and the Airport have never transferred money to the General Fund pursuant to the Transfer Legislation.

In 2011, the Government sent an invoice to the Authority requesting a total of \$12.25 million be transferred to the General Fund pursuant to the Transfer Legislation for years 1998 to 2011. In response to the invoice, the Authority sent a letter to the Government outlining the reasons it believed it was entitled to an approximately \$16 million offset against the invoiced amounts including that (i) the Authority did not have an operating surplus, within the meaning of the Transfer Legislation, in several of the years invoiced, (ii) the Authority had previously transferred \$3.5 million to the General Fund, (iii) the Authority had previously transferred \$2.0 million to the Government for typhoon relief for which it has not been reimbursed; (iv) the Authority had provided facilities and/or services to the Government in several of the years invoiced for which it had not been compensated or reimbursed, and (v) unlike the GPA, the Authority had provided its own police force during the years invoiced. The Authority has not received any further invoices from the Government since the 2011 Invoice.

Given the reasons listed above and because the Authority continues to maintain its own police force, and the Port's roads and facilities are provided and maintained by Port revenues and/or federal funding, the Authority believes it is entitled to a continuing offset against any amounts that might be due pursuant to the Transfer Legislation.

7.5. NATURAL DISASTERS

Typhoons, earthquakes, tsunamis, and other disasters occur periodically on the island of Guam due to its geographic location. These events could temporarily incapacitate the Port and cause significant damage to the existing infrastructure, and interrupt the Port's stream of revenue. For example, heavy west swells sometimes make the harbor entrance dangerous for a period of several days when a typhoon is building up in the area and moving northwest. The Authority has reported prior property losses caused by storm and earthquake occurrences.

Insurance held by the Authority, and the likely federal assistance that would come due to the Port's strategic importance, mitigate this risk. In addition, the Authority's facilities were robustly designed to military standards, built to withstand the extremely high wind conditions caused by typhoons. The majority are constructed of 3,000 pounds per square inch (psi) concrete and 20,000psi reinforcement steel. The lateral force was dominated either by wind load (160 MPH/200 MPH for WDS/USD method) or earthquake load (Zone 3 per UBC 1964 edition). New and renovated structures are designed or upgraded to comply with the current International Building Codes. In the event of a power failure, the Port has seven Prime Power generators to ensure continued operations, which are in Load Centers strategically located throughout its terminal container yard.

In 2015, a six-foot high concrete barrier wall along the Port's northern boundary was installed by the Authority to provide protection against storm surges and debris entering the terminal during a storm event.

7.6. YTK LITIGATION

On December 14, 2001, the Authority and Guam YTK Corporation (YTK) entered into a development and lease agreement for YTK to construct, develop, manage and operate a fisheries facility at the Hotel Wharf. The fisheries facility was never constructed. After a dispute arose between the parties with respect to the enforceability of the YTK Lease Agreement, YTK filed a Complaint to Compel Arbitration in October 2012 and a Motion to Compel Arbitration in November 2012.

The Authority opposed YTK's Motion to Compel Arbitration and on March 12, 2013, the Superior Court of Guam ruled in favor of the Authority. The Guam Superior Court found the YTK Lease Agreement unenforceable and denied YTK's Motion to Compel Arbitration on the basis that YTK's claims were barred by the Authority's sovereign immunity.

YTK appealed to the Supreme Court of Guam and on April 17, 2014, the Guam Supreme Court remanded the case to the Guam Superior Court to compel arbitration. The Guam Superior Court then ordered arbitration in July 2014; an arbitration hearing took place in January 2016 and the arbitrators issued a decision in favor of YTK on April 4, 2016.

Pursuant to the Arbitration Decision, the arbitrators deemed the YTK Lease Agreement terminated effective as of the Arbitration Decision Date and awarded YTK (i) approximately \$12.7 million (which was determined to be the market value of the leasehold interest of the YTK Lease Agreement); (ii) interest of 10 percent per annum on the unpaid balance of the award amount from the Arbitration Decision Date; and (iii) approximately \$1.4 million in attorneys' fees and costs. The Guam Superior Court issued a judgment confirming the Arbitration Decision in February 2017 but subsequently granted the Authority's Motion for Stay Pending Appeal to the Guam Supreme Court in July 2017. The Authority has appealed the arbitration award to the Guam Supreme Court and oral arguments are scheduled for June 14, 2018.

Although the Authority believes that the Arbitration Decision is incorrect, the Authority cannot predict the outcome of the case before the Guam Supreme Court. In the event that the Guam Supreme Court affirms the Superior Court Judgment, the resulting liability could have a material and adverse impact on the Port's financial position. In its orders dated April 27, 2017, within PAG Docket 17-01, the PUC ordered the Authority to return to the PUC for a rate investigation in the event the Authority loses its appeal of the arbitration award. Under Guam law, amounts awarded to YTK pursuant to the Arbitration Decision are not secured by any Port property or Port revenues. The Authority intends to vigorously defend itself against YTK's claims and any unfavorable outcome from the Guam Supreme Court.

7.7. MAINTENANCE

The Authority's equipment is exposed daily to a salty corrosive environment, and high-sulfur diesel exhaust fumes from the adjacent Guam Power Plant. These environmental conditions on Guam can lead to premature aging of key infrastructure such as cargo handling equipment and STS gantry cranes. Gantry #3, originally slated for replacement after 2027, was surveyed and taken out of operation in early FY 2017. Maintenance risk is mitigated by the following factors:

- The Authority has a FMF account that is dedicated funding for facility maintenance.
- The Authority has a dedicated crane surcharge that reserves funds for crane expenditures and for renewal and replacement.
- A Technical Support Services Contractor (currently Matson) provides technical and professional support services relative to the Port's gantry cranes.
- Matson has been contracted by the Authority to oversee the Port's programmed maintenance. As the primary carrier at the Port, Matson's profitability is contingent on the Port having operational STS gantry cranes. The company provides periodic due diligence surveys of the cranes to ensure critical elements are being properly addressed.

7.8. CAPITAL IMPROVEMENT PROGRAM CHANGES

Since none of the key projects included in the 2018 Bond issuance have been fully designed, the funds required to construct the projects could increase above the estimated costs. For example, the administration building cost estimate is based on a generic square footage rate, as design has not progressed to allow a more detailed cost analysis. The risk of estimated capital investment fluctuations has been mitigated by including a 12 to 17 percent contingency for all construction cost estimates depending on level of design for the identified projects.

SECTION 8. CONCLUSIONS

The following findings are based on observations, assumptions, forecasts and results of WSP's analyses made in this Report, which should be read in its entirety to provide the appropriate context.

DISCLAIMER: WSP is not a Municipal Advisor and is not registered with the Securities and Exchange Commission. WSP's scope is limited to engineering analysis of the Port. WSP has relied on other entities, including the Authority, GEDA, Citi, and the bond financing team for critical financial assumptions.

8.1. LONG-TERM SUSTAINABILITY

The Authority is dedicated to the Port's long-term sustainability in its role as Guam's primary supply-chain link to the global economies, with more than 90 percent of the goods and supplies for Guam's residents and the U.S. military flowing through the Port. This is demonstrated by the Authority's insightful Port Master Planning efforts and its commitment to the resulting Port Improvement Program. The planning efforts have been focused on meeting the forecasted demands of the increasing population, tourism and the U.S. military build-up within Guam and the CNMI projected over the next 20 years. Some of the resulting major steps forward are demonstrated by the following:

- To meet projected capacity demands, the Authority has invested in the expansion of the container yard, upgrades to its container handling capabilities, implementation of modern technologies, and implementations of service life extension renovations and upgrades to its facilities. Since 2013, more than \$100 million has been invested in the Port Modernization Program to move the Port to a state of good repair that will promote long-term operational stability, ensuring adequate capacity to support the peak volumes associated with military build-up.
- To ensure long-term operational sustainability, the Authority has established a Port Improvement Program inclusive of capital improvements, crane and equipment replacements, and on-going Port maintenance projects. The Authority has improved preventive maintenance procedures, and instituted a program of O&M staff trainings to improve staff capabilities.
- To ensure financial sustainability, the Authority continues to seek grant funding, issue Bonds for CIP projects, build adequate financial Reserves, and continually reevaluate tariff needs with strong support from the PUC and the Authority Board.

8.2. OPERATIONAL SUSTAINABILITY

The Authority has taken numerous steps to improve the operational sustainability of the Port. This is exemplified by procedural improvements, expanded staff training, programs for facility and equipment renovation and upgrades, implementation of modern computerized terminal operating systems, and the use of specialty consultants for technical guidance. Specific examples include the following:

- Improved equipment preventive maintenance program has been implemented with special emphasis on the STS Cranes and container yard cargo handling equipment.

- The Authority has commenced procurement of a Performance Management Contractor (PMC) for the training of the Authority's crane mechanic staff and the performance, operation, maintenance, emergency response, trouble shooting, diagnostic and repairs to the Port's STS gantry cranes on an on-call, as needed basis.
- A financial mechanism has been established with the Crane Surcharge fund regarding the operations, maintenance and replacement of the STS Cranes. This has resulted in a sustainable preventive maintenance program and a structured plan for the phased replacement of these critical assets over time as they reach the limits of their service lives.
- Guam is periodically subject to earthquakes, typhoons and storm surge events. Accordingly, the Authority has developed a phased approach to hardening critical elements of infrastructure and facilities to withstand these natural occurrences. Work in this area has included the wharf service life extension program to repair damaged piling and fenders as well as incorporate cathodic protection to address corrosion damage. The new container yard fence line adjacent to the breakwater has been designed as a hardened wall to minimize storm surge impacts on the operations.
- New technologies have been incorporated into the operations to increase efficiency, provide more accurate data collection and provide Authority management with better tools to manage the operations. Premier among these technologies is the installation of a new computerized TOS to record, control and report cargo movements into and out of the port along with cargo storage protocols within the terminals. This is soon to be followed with a computerized GOS that will automate the link of cargo gate transactions with the TOS, further enhancing the operations. Further software upgrades are planned for the accounting systems to link them seamlessly with the TOS for cost tracking and stakeholder reporting and billing.
- The Authority recognizes that one of its major resources is its well-seasoned staff. On-going training programs have been implemented to promote upward mobility and further enhance the operations. Major training efforts are on-going for the crane mechanics to increase the technical competence of the equipment maintenance crews. Another major training effort has been centered around the implementation of the TOS requiring the IT/TOS staff to take on new job roles and learn new processes and implement new procedures.

8.3. FINANCIAL SUSTAINABILITY

The Authority has taken significant steps to ensure its financial sustainability including strategies to increase revenue and limit the growth of operating expenses. The Authority has received strong support from its oversight and funding partners including the PUC and the Authority Board on tariff setting, Government approval of the 2018 Bond issuance, and grant support from numerous Federal Government agencies for Port improvement projects.

Specific actions and results include the following:

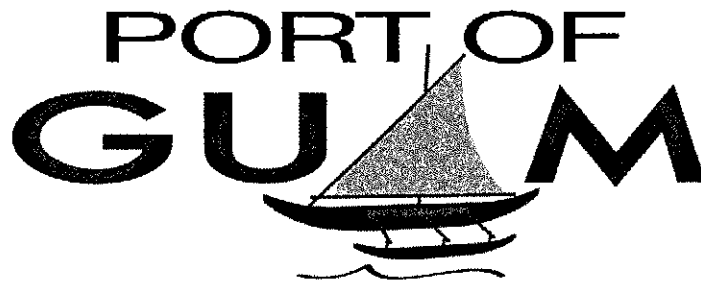
- The Authority implemented a 7 percent tariff increase in FY 2016. Following the FY 2016 increase, the Authority received approval for a 5-year tariff program that will increase tariffs an additional 17 percent by FY 2021.

- Annual cashflow has increased significantly in the past five years. The Authority's revenue has grown by an average 5 percent, while operating expenses have been essentially flat. Net operating income has increased from \$3.8 million in FY 2013 to more than \$10 million in each subsequent year, including \$12.4 million in FY 2017.
- Tariff increases implemented in FY 2016, FY 2017, and FY 2018 result in projected Net Operating Revenue exceeding \$16 million annually over the 2018 to 2022 time period.
- Due to the above improvements in annual cash flow, unrestricted cash has increased from \$10.8 million in FY 2013 to \$30.8 million in FY 2017.
- Implementing a FMF that generates over \$1.5 million annually for state-of-good-repair projects, and setting a policy to build up a management reserve in anticipation of the 2018 bond issuance.
- The Authority's CIP is focused on state-of-good repair projects. None of the CIP projects are required to generate additional revenue or meet forecast capacity needs. Rather, they will ensure long-term operational efficiency of the Port.
- The CIP funding is diversified. Of the \$74.5 million forecast in the 5-year CIP, approximately 64 percent is dependent upon the 2018 Bonds. Authority funds will be utilized for 15 percent of CIP costs, with federal grants covering 21 percent. In addition, the bulk of Federal Government grants have already been awarded, including the \$10 million TIGER grant for Hotel Wharf.

8.4. DEBT CAPACITY ANALYSIS

- Debt service coverage is forecast to be very strong. Based upon the financing assumptions provided by Citi and the operational analysis by WSP, debt service coverage for the 2018 bond issuance is forecast to far exceed the 1.25x minimum. Should the military build-up occur, debt coverage ratios will be even stronger as the marginal cost of Port operations is minor.
- The Authority is planning for the purchase of an additional gantry crane in 2019 and the replacement of the three existing gantry cranes between 2028 and 2032. However, these purchases may not be fully funded by the CR Account. Future debt issuances, expected to be backed solely by the Crane Surcharge and not funded with additional bonds, may be needed for these purchases. The Authority is required to report annually to the PUC regarding the adequacy of the CR Account to meet the crane replacement plan.

APPENDIX 1: PORT 2018 TARIFF



Naming Rates, Charges, Rules and Regulations

TERMINAL TARIFF #1

This Tariff can be obtained through the Port Authority's website at www.Portguam.com
Hard copies are available at a charge of \$25.00 and may be obtained from the address shown below.

Issued by

**Port Authority of Guam
1026 Cabras Highway – Suite 201
Piti, Guam 96925
Telephone: 671-477-5931**

Effective Date: 1/01/18

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SECTION I – TERMS & DEFINITIONS

Terms & Definitions effective 03/1/2012

PORT AUTHORITY OF GUAM

Section I – Terms and Definitions

Term #	Term	Definitions
T-1	Arrival & Departing Facility Service	Shall mean a charge assessed against a passenger departing or arriving through the Port facilities for the purpose of tourism. Terminating passengers are subject to compliance with all applicable Federal Laws, Rules and Regulations.
T-2	Authority	Means the Port Authority of Guam.
T-3	Board	Means the Board of Directors of the Port Authority of Guam
T-4	Breakbulk/ Non-unitized	Means cargo which is not classified as bulk, unitized or containerized
T-5	Bulk Cargo	Bulk cargo is a cargo that is transported unpackaged in large quantities. This cargo is usually handled with a spout or shovel bucket, as a liquid or as a mass of relatively small solids.
T-6	Bulk Scrap Metal	Means metals classified as scrap that is handled unbundled and is not unitized or in a contained package.
T-7	Bunker	The loading of fuel into a vessel's bunker for its own use
T-8	Cargo	Goods, wares, materials, merchandise or any other object that is, or to be, transported.
T-9	Cargo Overstow	The single movement or single crane lift of cargo from a vessel slot or cell to another position in stowage due to faulty loading (See T-26)
T-10	Cargo Rehandle	The single movement or crane lift of a previously loaded container/cargo and at the request of the agent, the lift of a container/cargo from a vessel slot/storage or cell to another position in stowage or from vessel stowage to deck or dock or from deck or dock to vessel stowage.
T-11	Cargo Shift	The single movement or single crane lift of a container from a vessel slot or cell to another position in stowage.
T-12	Containers	Shall mean rigid, re-usable, dry cargo, insulated, refrigerated, flat rack, liquid tank or open top cargo container capable of being readily mounted onto or dismounted from wheels, chassis or flat bed trailer. The container shall be 8 feet wide, 20 feet, 40 feet and 45 feet long and 4 feet to 9 feet 6 inch high, subject to restrictions of shore side gantries. Except for dimensions, which are given above, it shall be constructed in conformity with the specifications for freight containers as adopted by the ISO or the ASO. Container must have top and bottom corner casting conforming to ISO/ASO specifications.

PORT AUTHORITY OF GUAM

Section I – Terms and Definitions

Term #	Term	Definitions
T-13	Container Cargo	Shall mean cargo in a container conforming to the above definition and is stowed within the container (See T-12)
T-14	Container Chassis Operation	That which requires the continued utilization of a chassis for the receiving/delivering of containers to/from vessel and/or to/from customers.
T-15	Container Grounded Operation	That which requires the utilization of the Port's equipment (Rubber Tired Gantry or other related container handling equipment) for receiving/delivering containers to or from a grounding area.
T-16	Container Overstow	The single movement or single crane lift of a container from a vessel slot or cell to deck or dock to vessel storage due to faulty loading. (See T-26).
T-17	Dock	Any bulkhead structure, piling structure, pier, quay landing, or wharf to which a vessel may make fast to discharge or load cargo and/or passengers for any purposes.
T-18	Dockage	The charge assessed against a vessel for berthing or made fast to a wharf, dolphin or other structure; or lying alongside of or tied up to a vessel which is made fast to or is lying alongside of a wharf, dolphin or other structure; or, not tied up to or lying alongside of but using a wharf by means of boats, rafts, lighters, barges, or otherwise.
T-19	Facility Maintenance Fee	A fee assessed for use of port facilities to provide funding for the maintenance, equipment replacement and repair of the port facilities. The fee will be assessed to port users utilizing the facilities in the receipt and delivery of cargo to and from vessel and/or in connection with the receipt, delivery, checking, care, custody and control of cargo as required in the transfer of cargo. The foregoing is not included any services or facilities charges in this tariff.
T-20	Force Majeure	Any act of God; act of the public enemy; strike; lockout or work stoppage; riot; tumult; insurrection; disorder; epidemic; pandemic; lightning; earthquake; fire; heating, leakage, evaporating, natural shrinkage, waste or decay, dampness, discharge from fire protection system, storm; wind; flood; hurricane; water; civil disturbance; war; governmental decree; act of any governmental authority; act of terrorism; condemnation; explosion; breakdown or failure of machinery and equipment; interference by civil or military authority; collapse of any building, shed, platform or wharf; settling of any floor or foundation; breakage of any pipe; damage by the elements to goods or property stored in open or unshedded areas; loss caused by a

PORT AUTHORITY OF GUAM

Section I – Terms and Definitions

Term #	Term	Definitions
		rat, mouse, moth, weevil, or other animal or insect; concealed damage; spoilage of dry or refrigerated cargo; frost or other weather related occurrence; failure or delay of any manufacturer or person from whom the Authority is obtaining machinery, equipment, materials, supplies to deliver the same; any other event or circumstance beyond the control of the PAG.
T-21	Free Time	The specified period of time during which cargo may occupy space assigned to it in the terminal area free of demurrage charges prior to loading to a vessel or subsequent to the discharge of such cargo from the vessel.
T-22	Handling Services	Services rendered for the benefit of the cargo, during the period it is in the care, custody and control of the Port, when received at the place of rest assigned to the cargo by the Port, and from which cargo may be delivered to/from consignee/shipper trucks within the Port premises
T-23	Hazardous Cargo	Applies to Containerized and Breakbulk Cargo, inbound, outbound, local and transshipped. Materials identified as Certain Dangerous Cargo (CDC) under the 49 CFR 176.415 (a) and 33 CFR 126.19.
T-24	Inland Marine Floater Insurance	Insurance on cargo “in Transit” to cover the transportation of goods over water and on land. Coverage is for the value of the cargo from origin to final destination, provided goods do not enter storage during the transit period.
T-25	Manager	Means the General Manager of the Jose D. Leon Guerrero Commercial Port, aka Port Authority of Guam.
T-26	Over-Stowage	Means faulty loading, as when cargo for another port of discharge is stowed above, next to, or around cargo for Guam and therefore the latter cannot be discharged at Guam.
T-27	Port	Means Jose D. Leon Guerrero Commercial Port, aka Port Authority of Guam, located in the Territory of Guam located on Cabras Island, Apra Harbor.
T-28	Port Facilities	Means channels, basins, sea walls, docks, piers, land areas, utilities, warehouses, cargo handling machinery and equipment, and any other works, properties, structures or other facilities necessary for the development or operation of the Port of Guam.

PORT AUTHORITY OF GUAM

Section I – Terms and Definitions

Term #	Term	Definitions
T-29	Revenue Ton	<p>Shall mean the revenue ton used by the carrier according to the vessel's manifest to assess the carrier's freight charges. Based on the following as appropriate:</p> <ul style="list-style-type: none">• MBM (thousand board measurement) - 1,000 board feet• LONG TON – Two thousand two hundred Forty (2240) Pounds• MEASUREMENT TON - A ton of forty (40) cubic feet.• METERED TON - Two hundred forty (240) U.S. gallons• METRIC TON – Two thousand two hundred four and six tenth (2204.60) lbs weight or 35.314 cubic feet• SHORT TON - Two thousand (2,000) lbs. weight <p><i>Note: When the basis of the freight charges is not shown on the manifest, port charges shall be assessed on the basis of weight or measurement, whichever will yield the greater revenue.</i></p>
T-30	Roll On – Roll Off Vessels	Shall mean vessels with adjustable ramps. Ro/Ro shall be defined as the discharge or loading of cargo without Port equipment.
T-31	Stevedoring Services	Services rendered by the Port in removing or handling cargo from the end of the vessel's tackle or place of rest on a pier to the vessel's hold, deck, between decks and deep tanks or to any spaces in the vessel; from any space in the vessel, remove and handle cargo, including on deck, between decks, holds, and deep tanks, and place said cargo at rest on the pier or delivered into the port's cargo yard.
T-32	Storage	A charge assessed on a container, bulk or breakbulk cargo when its stay on the terminal exceeds the allotted free time period.
T-33	Transshipped Rate	Shall mean a charge assessed against cargo(s) received from a vessel for the purpose of passing or conveyed to another vessel at Guam Port.

PORT AUTHORITY OF GUAM

Section I – Terms and Definitions

Term #	Term	Definitions
T-34	Under the Hook	<p>The service accorded in transferring breakbulk cargo from ships tackle or crane, between ship and, barge, lighter or other water borne vessels; onto trailer beds or bodies which are spotted directly to or from within reach of ships tackle or terminal's tackle. Or from trailer beds or bodies which are spotted directly to or from within reach of ships tackle or terminal's tackle; onto vessel's hold, dock, between decks and deep tanks or to any space in the vessel.</p> <p>Requirements for Breakbulk "Under the Hook Services":</p> <ol style="list-style-type: none">1. Requested in writing five (5) working days prior to vessel arrival.2. A Copy of the Bill of Lading with the required original government clearance stamps on the day of vessel arrival.3. The cargo will not be stored in the Port Terminal yard and must leave the port immediately after discharge from the vessel or received for immediate loading. .
T-35	Unitized Cargo	<p>Shall mean cargo received and/or delivered as one unit at the Port premises in unbroken unitized loads, bearing one mark consigned to one Consignee. Such cargo must be securely strapped or fastened together on pallets or skids or shipped in a manufactured re-usable cargo van, vanpac, or cargo van, or other synonymous term for van, with the exception of containers.</p> <p><i>Note: Any single unit load which is otherwise unsuitable for a 5 ton forklift handling with the Port's cargo handling equipment will be considered as Breakbulk cargo.</i></p>
T-36	Vehicle	<p>Shall mean any device for carrying passengers, goods or equipment usually one moving on wheels, i.e., passenger cars, sedans, SUVs, pick-up trucks to 3/4 ton axle weight capacity, ambulances, hearses or panel trucks to 3/4 ton axle weight capacity.</p>
T-37	Vessels	<p>Shall mean steamboats, motorboats, sailing vessels, motor vessels, barges, lighters, liners, pleasure craft or any structure(s) made to float on the water for navigation.</p>
T-38	Wharf	<p>See Dock</p>

PORT AUTHORITY OF GUAM

Section I – Terms and Definitions

Term #	Term	Definitions
T-39	Wharfage	A charge assessed against all cargo passing or conveyed over, onto or under any wharves or between vessels (to or from barge, lighter, or water) when berthed at a wharf or moored in any slip, channel, basin, or canal or made fast to another vessel which is made fast to a wharf or moored in any slip, channel, basin or canal. Wharfage is solely the charge for the use of the wharf, slip, channel, basin, and canal, and does not include charges for any other activity or service.

Note: Items numbered T-40-99 intentionally left blank

SECTION II – RULES & REGULATIONS

Rules & Regulations Effective 03/01/2012

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
R-1	APPLICATION OF RATES, LAWS, RULES AND REGULATIONS <p>(a) This tariff, published and filed by the Port after public hearings, approval of the Guam Public Utilities Commission and made effective, is notice to the public, to shippers, consignees and to carriers or their agents that the rates, charges, rules and regulations apply to all traffic without specific notice, quotation to (except as hereinafter may be specified) or arrangements with shippers or carriers.</p> <p>The rates, charges, rules and regulations, additions, revisions, or supplements named in this tariff, apply on all freight received at the terminal or wharves of the Port on and after the effective date of this tariff, or effective dates of additions, revisions of supplements thereto.</p> <p>The use of the commercial waterways and facilities under the jurisdiction of the Port Authority shall constitute a consent to the terms and conditions of these rules, and evidences an agreement on the part of all vessels, their owners and agents, and other users of such waterways and facilities to be governed by, and to pay all charges specified by, these rules.</p> <p>(b) If any owner, master, operator, agent, charterer, partnership, trust, corporation or individual who is duly accredited with the Port purports to act for a vessel by communicating with the Port in behalf of a vessel, thereby assumes responsibility for all sums due to the Port in accordance with the fee schedules as set forth in these rules and for timely submission of required Port reports on forms provided by the Port for that vessel and its cargo as well as for any barge and its cargo which the vessel may have in tow. For agents, this applies only for the period they are engaged as agents for the vessel. Any agent whose request through Harbor Master for "Acceptance of Agencyship" for any vessel will be responsible for all charges and until the account is satisfied financially, only then can agencyship be terminated.</p> <p>(c) Whenever any vessel under the terms of these rules shall become obligated to pay any sum of money for any purpose whatsoever, the owner, charterer, agent, master, operator, possessor and person in whose service the vessel is operated or maintained shall be jointly and severally liable for the payment of such sums.</p> <p>(d) Use of territorial harbors and harbor facilities is subject to compliance with all applicable federal or territorial laws, rules and regulations.</p>

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
R-2	VIOLATION OF REGULATION PENALTY Any person, who violates, causes or permits to be violated, or fails or refuses to comply with any rule of regulation in this tariff is guilty under Title 12, Chapter 10, Section 10105(g) of Guam Public Law. If such violation causes the port to be assessed a monetary fine, that fine will be passed on to the violator for the total fine plus 20%.
R-3	PAYMENT OF CHARGES Use of the Terminal facilities or wharves of the Port shall be deemed as acceptance of this tariff and the terms, charges and conditions named herein. All invoices are due and payable thirty (30) calendar days after the invoice date. Any invoice remaining unpaid thirty (30) calendar days after the invoice date will be considered delinquent, and after thirty (30) days will be assessed an interest charge of one and one-half percent (1.5%) per month, for as long as the invoice remains delinquent. Failure to pay within this time limit may also cause the suspension of credit privileges to be imposed, as well as placing the delinquent party on a delinquent list. Continued failure to comply with the terms set forth herein may result in legal action. Any charge considered in dispute by the party which has been invoiced, the PAG will not assess an interest penalty, provided that material errors or discrepancies on an invoice have been specifically reported in writing to the PAG General Manager within thirty (30) days after receipt thereof. If not received within thirty (30) days, the invoice shall be considered valid and payable. At no time shall invoices be reduced by any monetary amount for loss and/or damage believed to have been caused by the Authority. When an invoice is in dispute, any portion which is not part of the dispute shall be paid within the 30 day period. Also, the Authority will only negotiate disputed invoices with the party to whom the invoice is issued. On all vessels calling at the PAG terminals, the carrier/agent shall be responsible for the payment of all related charges. The PAG reserves the right to hold vessels, their owners, and/or agents liable for payment of all terminal charges which have accrued, and any charges for the removal of such cargo to another part of the terminal for storage elsewhere, and other applicable charges. Formal application to the PAG Finance Division for credit must be made before incurring charges. This application will state that “all published charges are guaranteed”.

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
	<p>PAG may extend credit to any user of facilities upon application for credit and demonstration of financial responsibility. Credit worthiness may be established through current “certified” financial statements or other acceptable evidence of financial responsibility and by furnishing satisfactory credit references and a bank reference. If credit is not properly established, PAG reserves the right to deny the use of its facilities to carriers, cargo owners or other users of the port.</p> <p>When credit has not been properly established, the PAG reserves the right to estimate and collect in advance all charges which may accrue against agents or against cargo loaded or discharged by vessels or other users of the facilities of the PAG terminals.</p> <p>For newly incorporated steamship lines or those users not granted credit, PAG may extend credit to those customers who will post and maintain a Letter of Credit or Indemnity Bond acceptable to the port.</p> <p><i>Note: Claims for recovery of overcharges must be filed in writing with the Port within thirty (30) days following the date of billing which such overcharge is claimed. Claims filed after the thirty day period will not be valid.</i></p>
R-4	<p>DELINQUENT LIST:</p> <p>All carriers, vessels, their owners and/or agents, or other users of the facilities of the PAG terminals, placed on the delinquent list for reasons stated herein will be denied further use of the facilities until all charges thereon, together with any other charges due, have been paid.</p>
R-5	<p>FEE FOR COLLECTION OF INVOICES</p> <p>The carrier or its agent is authorized to retain one fourth of one percent (0.25%) of all charges assessed against cargos to defray the cost of collecting these charges on behalf of the Port Authority. By withholding this percentage the carrier or its agent accepts the responsibility for collection of the funds and are responsible for payment to the PAG.</p>

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
R-6	<p>CLAIMS, LIABILITY FOR LOSS OR DAMAGE TO CARGO</p> <p><i>Effective : 1/01/2018</i></p> <p>The Port will not be responsible for loss or damage caused by Force Majeure as defined in this Tariff:</p> <p>In no circumstance shall PAG be liable for a sum in excess of \$500.00 per package or non-packaged objects unless the shipper, consignee, trucker, or other inland carrier, or their representatives, prior to the commencement of such services or use of such facilities, declares a higher value and pays to PAG, in addition to the other charges for such services as herein set forth, a premium computed at one percent (1%) of the declared value of each package or non-packaged object and in such event PAG shall be liable for the full declared value of each such package or non-packaged object for damage resulting from its failure to exercise due and proper care in performing the services. The word "package" shall include any van, container or other form of cargo unitization.</p> <p>Claims to the Port for loss or damage to freight or merchandise occurring while in the custody of the Port, on its terminals or property, must be filed in writing within three (3) months following the final delivery of such freight or merchandise from its terminals or property. (If delivery was not made then the date that delivery would have been made.) A fee of \$64.71 to cover administrative costs must accompany the claim.</p> <p><i>Note: It is the responsibility of the cargo owner to supply "Inland Marine Floater" insurance on their cargo to cover loss and damage from origin to destination.</i></p>
R-7	<p>LIABILITY FOR DAMAGE TO PORT PROPERTY</p> <p>The person, or persons, responsible for, and the person or persons to whom a wharf, facility or other Port property may be assigned, or by whom it is being used, and the master, owner, operator or agent of any vessel, vehicle or other instrumentality involved in any damage to such Port properties for facilities, in excess of fair wear and tear, shall promptly give a full report thereof to the Harbor Master, giving the date and hour the damage occurred, the names and addresses, or, if unknown, a description of witnesses and other persons, vessels or instrumentalities involved in the damage, as well as all other pertinent facts and information that may be available. Refusal, neglect or failure to make or give any such report shall subject such person to applicable penalties under these rules. In addition, the Port may refuse the use of any wharf or facility until such report has been received.</p> <p>Any person responsible for damage to Port property shall make repairs in accordance with Port specifications. Failure to do so, within a reasonable time, will result in the Port making such repairs at the expense of the responsible party or parties.</p>

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
	<p>A certificate of financial responsibility or equivalent property and indemnity or liability insurance or bond acceptable to the Port shall be required for all vessels entering the Port facilities. The certificate of financial responsibility or equivalent shall include coverage for the costs of any hazards that may be caused by the subject vessels including but not limited to oil pollution liability and property damages.</p> <p>Carriers shall provide, at a minimum, coverage as defined by federal and local laws, rules or regulations. Carriers either directly or through their agents shall be responsible for providing proof of such certificate of financial responsibility or equivalent to the Port Authority prior to entering territorial waters. If a carrier fails to provide the Port Authority with a certificate of financial responsibility or equivalent for a vessel it represents, then such carrier will be denied access to any and all facilities under the jurisdiction of the PAG.</p>
R-8	<p>REQUEST AND AVAILABILITY OF PORT SERVICES AND FACILITIES</p> <p>(a) The General Manager or his/her authorized representative must be given twenty four (24) hours advance notice during normal working hours prior to reporting time for services, in writing. For services to be performed on Saturday, Sunday or Monday, notice must be given no later than 10:00 hours on the previous Friday. Special services will be provided only upon presentation of a properly signed and approved special service request form, subject to availability of requested services of manpower and/or equipment.</p> <p>(b) The Port will not accept for storage frozen or chilled cargo when such storage facilities are not available or are inadequate. Written instructions from the carrier must be submitted to the General Manager, or his authorized representative, as to the disposition of such cargo before it is discharged from the vessel.</p> <p>(c) Stevedoring and Handling service will be provided by the Port subject to availability of longshoremen, checkers and equipment on a first-come first serviced basis</p> <p>(d) The Port may designate areas to be used only for specific purposes or operations.</p> <p>(e) Whenever another vessel is standing by, awaiting the use of a berth where handling equipment is located, the vessel on berth will be required to work until loading or discharging has been completed. Any vessel on berth which refuses to work continuously shall vacate the berth upon order of the General Manager. When a vessel loses its right to a berth by refusing to work continuously, such vessel will forfeit her turn and go to the bottom of the list of vessels scheduled for berth and manpower availability.</p>

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
	<p>(f) Any and all vessels at a berth where handling equipment is located, after completion of loading or discharging, will be required to vacate the berth. Should any vessel fail to vacate the berth, the General Manager shall have the right, authority and privilege to move the vessel at the vessel's own risk and expense.</p> <p>(g) The Port Authority reserves the right to refuse the handling of any commodity which, in its opinion, is not suitable for the available handling equipment.</p> <p>(h) No cargo will be received or issued without proper documentation and clearance from the carrier or its agent and the Port Entry.</p> <p><i>Note: Partial clearance of any Bills of Lading will not be allowed.</i></p>
R-9	<p>REQUIREMENT AND CONDITIONS FOR THE EXPORT OF CARGO</p> <p>Outbound cargo will be received by the Port when such cargo is firmly booked with the carrier or its agent, properly marked as to cube, weight and consignee, no less than twenty-four (24) hours in advance of the scheduled arrival based on the first Notice of Arrival (NOA) submitted to Harbor Master's Office.</p> <p>Charges for such cargoes will be computed on labor charge-out and equipment rental rates, in addition to the stated Tariff Rate, for the account of the shipper being serviced for cargos received less than 24 hours or on weekends, holidays and after normal working hours.</p> <p>An exception is given for cargoes under "Free Time Exception".</p>

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
R-10	HAZARDOUS CARGO AND EXPLOSIVES Handling of shipments of explosives and other dangerous articles as defined by the US Coast Guard or the Interstate Commerce Commission, will be permitted only after a full compliance by the shipper, carrier, and terminal operator with all applicable rules and regulations of that Commission, and of the United States Coast Guard governing the packaging, marking, labeling, handling, and transporting of such articles.
R-11	AMENDMENT OF TARIFF Amendments or revisions to this tariff, its Definitions, Rules, Regulations, Cargo Services or Rates, shall be made by the Port Authority Board of Directors in accordance with formally adopted procedures consistent with requirements established under the Administrative Adjudication Act and by the Federal Maritime Commission and approved by the Guam Public Utilities Commission. <i>Note: Emergency measures for such amendments may be set forth by the Port Authority Board of Directors to establish measures for which there has not been established precedence. Such changes to the tariff will be submitted at the next regular meeting of the Public Utilities Commission for approval.</i>
R-12	LEASES Rates for lease or rental of any port facility, or portion thereof, shall be established and published by the Port Authority Board of Directors and approved by the Public Utilities Commission, exclusive of the Terminal Tariff, in accordance with provisions of the Administrative Adjudication Act. Any such lease or rental agreements in effect at the date of adoption of this tariff by the Board of Directors shall be continued in effect until expiration of such agreements, unless otherwise provided in the subject agreements.

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
R-13	<p>PORT AUTHORITY GENERAL MANAGER'S DUTIES AND RESPONSIBILITIES</p> <p>The General Manager and such other persons as he/she may designate, may enter upon and inspect any vessel using port facilities or upon any premises rented or leased from the Port for the purposes of either ascertaining the kind and quantity of cargo thereupon or to insure the safety, welfare and health of the general public.</p> <p>The General Manager or authorized representative may order the suspension of any Loading or Unloading operation when in his/her opinion such suspension is necessary to insure the safety, health and welfare of the public.</p> <p>The provisions of this tariff and its application shall be interpreted and enforced by the General Manager or authorized representative of the Port Authority of Guam. Such interpretation shall be recorded and made available for public inspection.</p> <p>Requests and complaints on matters relating to these rules must be made to the General Manager in writing.</p> <p>Special services and interim rates can be established by the General Manager for 6 months, until sufficient cost data are available to establish a rate. Special arrangements may be made by written contract for stevedoring, bulk cement and other cargoes that are not normally handled by the Port and/or of great volume.</p> <p>Contracts may also be executed when vessels' characteristics or cargo stowage require special or unusual provisions for stevedoring; or when the vessel is owned by the United States Government. These arrangements will be based on estimated loading rates, man-hour and hazardous pay rates presented in this tariff.</p>
R-14	<p>RESPONSIBILITY OF CLEANING OF PROPERTY BY USER</p> <p>Users of Port Authority property will be required to maintain same in an orderly manner as prescribed by the General Manager.</p> <p>If the User does not properly clean property used, the General Manager shall order the work performed and the user will be billed at labor rates prescribed in Section VI of this Tariff.</p>

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
R-15	USE OF PRIVATE EQUIPMENT ON PORT No mechanical equipment may be utilized on the terminals of the Port except as authorized by the Port. Right is reserved to refuse permission when similar equipment, in capacity or nomenclature, is available for use or when equipment does not meet with the approval of the Port. The rental cost of any equipment so hired will be borne by the requesting agent, owner, or operator.
R-16	ARBITRATION All disputes and controversies of any kind and nature arising out of or relating to this tariff shall be determined by final binding arbitration. Any interested party may demand such arbitration in writing within thirty (30) days after the controversy arises which demand shall include the name of the arbitrator appointed by the party demanding arbitration, together with a statement of the matter in dispute or controversy. Within twenty (20) days after such demand, the other party shall file an answer to the demand and name its arbitrator. Within thirty (30) days after the filing of the answer, the two arbitrators so selected shall name a third arbitrator. Within sixty (60) days after the third arbitrator has been named, the three arbitrators shall hold an arbitration hearing. Within thirty (30) days after conclusion of the arbitration hearing, the arbitrators shall render a final decision and/or award. The individual arbitration costs and expenses of each party shall be borne by that party; however, the fees and costs of the third arbitrator shall be borne and shared equally by both parties. The laws and rules of evidence of Guam (Title 6, Guam Code Annotated) shall govern the presentation of evidence at the arbitration hearing Any decision or award rendered by a majority of the arbitrators shall be final and binding on all parties to the proceeding, and judgment on such award may be entered and confirmed by either party in the Superior Court of Guam pursuant to 7 G.C.A Section 42107

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
R-17	SERVICES NOT SPECIFIED IN TARIFF If any service is requested of the PAG that is not listed in this Tariff and has not been negotiated through prior arrangements, the Labor and Equipment Rates listed in this Section VI will be applied until a rate can be established and approved by the Public Utilities Commission.
R-18	ABANDONED CARGO & CONTAINERS The PAG reserves the right to sell for accrued charges any cargo or merchandise which is not held by Customs or another Government Agency, is unclaimed or refused by consignees, shippers, owners, or agents after due notice has been mailed or delivered to such known parties. PAG reserves the right to charge the beneficial owner for all costs incurred in disposing of abandoned cargo. The following procedures will be initiated for disposition of such cargo. <ul style="list-style-type: none">• Cargo or merchandise refused by consignee or carrier, and for which no instructions for disposition have been received, will be deemed to be unclaimed after thirty (30) days from time of refusal.• Overlanded cargo for which no instructions for disposition have been received will be deemed to be unclaimed after thirty (30) days from time of discharge of cargo from vessel.• Undelivered slack, torn and damaged cargo or merchandise for which no instructions for disposition have been received will be deemed to be unclaimed after thirty (30) days from receipt of the cargo at PAG facilities.• The PAG reserves the right to order removal of remnants and undesirable cargo by means of thirty (30) days written notice to owner or agent after which, if the order is ignored, the cargo is deemed to be unclaimed.• The PAG reserves the right to sell for accrued charges any cargo or merchandise which is unclaimed or refused as defined in this item. The thirty (30) day periods as specified in this item constitute due notice to owners or responsible agents of unclaimed and undelivered cargo. Should any funds from the sale exceed the port charges, cost of disposition or any legal claims thereon, such funds will be returned to the cargo owner if duly identified.

PORT AUTHORITY OF GUAM

Section II – General Rules & Regulations

Rule #	Rule or Regulation
R-19	WORKING DAY A working day for the Port of Guam and application of this Tariff shall be: Straight Time Hours: 8 am through 5 pm (less 1 hour for lunch break) Monday through Friday each week. Overtime Hours: Any time Worked other than Straight Time Hours, Holidays or Non-Work days. Holidays: Those days defined as holidays by the Government of Guam. Non-Work Days: Christmas Day and New Years Day

Note: Items numbered R20-99 intentionally left blank

SECTION III - SHIP & HARBOR SERVICES TARIFF

PORT AUTHORITY OF GUAM

Section III - SHIP SERVICES TARIFF

Item #	Description								
1	<p>PORT ENTRY FEE</p> <p><i>Effective : 1/01/2018</i></p> <p>All vessels (Except military, government-owned, non commercial fishing and pleasure boats, the home waters of which are in Guam) shall pay a port entry fee as follows:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 80%;">Vessels of 1000 gross tons or less -</td><td style="text-align: right;">\$34.79</td></tr> <tr> <td>Vessels between 1000 gross tons and 2000 gross tons</td><td style="text-align: right;">\$70.94</td></tr> <tr> <td>Vessels over 2000 gross tons is</td><td style="text-align: right;">\$70.94 plus \$52.86</td></tr> <tr> <td colspan="2" style="text-align: right;">For each additional 2000 gross tons or fractional part thereof.</td></tr> </table>	Vessels of 1000 gross tons or less -	\$34.79	Vessels between 1000 gross tons and 2000 gross tons	\$70.94	Vessels over 2000 gross tons is	\$70.94 plus \$52.86	For each additional 2000 gross tons or fractional part thereof.	
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2	<p>DOCKAGE - BASIS FOR CHARGES</p> <p><i>Effective : 03/01/2012</i></p> <p>Dockage charges shall be based upon the vessel's, length overall as published in "American Bureau of Shipping" or "Lloyd's Register of Ships." Length overall shall mean the linear distance, expressed in feet, from the most forward point of the stem of the vessel to the aft most part of the stern of the vessel, measured parallel to the base line of the vessel. If the length overall of the vessel does not appear on "American Bureau of Shipping" or "Lloyd's Register of Ships," the Port may obtain the length overall from the "Vessel's Register" or may measure the vessel. The following will govern the disposition of fractions: Five (5) inches or less disregard, over five (5) inches, increase to the next whole figure.</p> <p>Dockage shall commence against a vessel:</p> <ol style="list-style-type: none"> 1) When making fast to a wharf, dolphin, or other structure 2) When occupying the berth immediately alongside a wharf. 3) When making fast to a vessel lying alongside a wharf 4) When first boat, raft, lighter, etc., reaches wharf and shall continue upon such vessel until she is completely freed from and vacates her mooring or anchoring until last boat, raft, lighter, etc., leaves the wharf. 								

PORT AUTHORITY OF GUAM

Section III - SHIP SERVICES TARIFF

Item #	Description
3	<p>DOCKAGE - APPLICATION OF RATES</p> <p><i>Effective : 03/01/2012</i></p> <p><i>Note: Dockage shall be assessed against all vessels at the daily dockage rates if the vessel is at berth more than 12 hours. If less than 12 hours ½ day's dockage will be billed.</i></p> <p><i>Vessels that are home ported at PAG terminals will be billed dockage in a separate agreement between the PAG and the vessel owner.</i></p> <p><u>Vessels Anchoring in Territorial Harbors</u></p> <p>Vessels, other than small craft, anchoring within a port-controlled harbor shall be assessed at the rate of one-fourth (1/4th) the full dockage per day or any fraction thereof.</p> <p><u>Charges for Vessel Shifting</u></p> <p>When a vessel is shifted directly from one wharf or anchorage (berth) to another wharf or anchorage (berth) operated or utilized by the Port, the total time at such berths will be considered together in computing the dockage charge.</p>
4	<p>DOCKAGE CHARGES – NON-OPERATIVE & MISC. VESSELS</p> <p><i>Effective : 03/01/2012</i></p> <p>Dockage for vessels or other floating equipment being dismantled, salvaged, repaired or rebuilt at piers not currently required for other purposes, as available only, shall be charged at the rate of 3/4th the full dockage per day, or fractional part thereof.</p> <p>One-Half (1/2) the full dockage rate shall be assessed against vessels subject to dockage when:</p> <ol style="list-style-type: none">(1) Vessel lying alongside of, or tied up to, any vessel made fast to or lying alongside a port wharf.(2) Vessel is a floating dry dock, floating crane or equipment barge. <p>One-Fourth (1/4) the full dockage rate shall be assessed when a vessel is a fishing vessel home ported in Guam and is regularly fishing within the territorial waters of Guam and the Northern Marianas Islands.</p>

PORT AUTHORITY OF GUAM

Section III - SHIP SERVICES TARIFF

Item #	Description																																																																																																									
5	DOCKAGE CHARGES <i>Effective : 1/01/2018</i> Based on Length Over All (LOA) of vessel in Feet.																																																																																																									
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PORT AUTHORITY OF GUAM

Section III - SHIP SERVICES TARIFF

Item #	Description																										
6	<p>SECURITY FEES APPLICATION</p> <p><i>Effective : 03/01/2012</i></p> <p>Security fees and charges shall be applicable to all vessels that call at the Port, and which have provided a notification of arrival.</p> <p>The fees and charge shall also be applicable to all cargo transiting in and out of the Port and for passengers embarking or disembarking at the Port. Failure by the responsible party to pay the charges assessed may, in the sole judgment of the Port, be grounds for denial of a berth in the future.</p>																										
7	<p>SECURITY FEE</p> <p><i>Effective : 1/01/2018</i></p> <p>A Security Fee based on the following schedule shall be assessed on all vessels, cargo and passengers as provided.</p> <table border="1"> <thead> <tr> <th>Category</th><th>Security Fee</th></tr> </thead> <tbody> <tr> <td>Vessel Fee</td><td>5% of Dockage billed</td></tr> <tr> <td>Loaded Containers (Inbound & Outbound)</td><td>\$2.78 per container</td></tr> <tr> <td>Empty Containers (Inbound & Outbound)</td><td>\$0.66 per container</td></tr> <tr> <td>Bunkering/Fuel Throughput/Waste Oil</td><td>\$0.03 per 42-US gallon barrel</td></tr> <tr> <td>Breakbulk Cargo</td><td>\$0.14 per revenue ton</td></tr> <tr> <td>Unitized Cargo</td><td>\$0.14 per revenue ton</td></tr> <tr> <td>Vehicles (roll on/roll off)</td><td>\$1.38 per vehicle</td></tr> <tr> <td>Bulk (sand, aggregate, scrap metal)</td><td>\$0.02 per revenue ton</td></tr> <tr> <td>Passenger Vessel Crew:</td><td>\$1.38 Per Person (one time)</td></tr> <tr> <td>Passengers</td><td>\$1.38 Per Passenger</td></tr> <tr> <td>All Other Cargo:</td><td>\$2.78/per container</td></tr> <tr> <td> <ul style="list-style-type: none"> • Transshipped other than Tuna • Transshipped Tuna • All Other Container Cargo </td><td></td></tr> </tbody> </table>	Category	Security Fee	Vessel Fee	5% of Dockage billed	Loaded Containers (Inbound & Outbound)	\$2.78 per container	Empty Containers (Inbound & Outbound)	\$0.66 per container	Bunkering/Fuel Throughput/Waste Oil	\$0.03 per 42-US gallon barrel	Breakbulk Cargo	\$0.14 per revenue ton	Unitized Cargo	\$0.14 per revenue ton	Vehicles (roll on/roll off)	\$1.38 per vehicle	Bulk (sand, aggregate, scrap metal)	\$0.02 per revenue ton	Passenger Vessel Crew:	\$1.38 Per Person (one time)	Passengers	\$1.38 Per Passenger	All Other Cargo:	\$2.78/per container	<ul style="list-style-type: none"> • Transshipped other than Tuna • Transshipped Tuna • All Other Container Cargo 	
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All Other Cargo:	\$2.78/per container																										
<ul style="list-style-type: none"> • Transshipped other than Tuna • Transshipped Tuna • All Other Container Cargo 																											
7(a)	<p>SECURITY FEE - PASSENGERS</p> <p><i>Effective : 03/01/2012</i></p> <p>Passenger vessels will be provided security personnel while the vessel is moored at PAG Facilities in accordance with rules and regulations dictated by the US Government for such vessels. In addition and upon request escorts may be provided as established in the note below.</p> <p>Fees to provide Security personnel will be assessed at Labor Charge Out Rates as set forth in Tariff Item 80.</p> <p><i>Note: In addition to the personnel supplied above, TWIC Escorts by Port personnel may be requested by calling (671)477-5631-4 and will be provided when suitable personnel are available, and at the sole discretion of the Port, at labor rates provided in Tariff Item 80. Port makes no representation that escorts will be available or will be able to remain with persons requesting the service for the duration of their visit.</i></p>																										

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Section III - SHIP SERVICES TARIFF

Item #	Description									
8	<p>FACILITY MAINTENANCE FEE</p> <p><i>Effective : 1/01/2018</i></p> <table><tr><td>Per Full Inbound/ Outbound Containers</td><td>\$33.64</td></tr><tr><td>Per Full Inbound Transshipped Containers</td><td>\$33.64</td></tr><tr><td>Per Revenue Ton for Breakbulk Cargo</td><td>\$ 1.82</td></tr></table> <p><i>Exemption - Bills of lading for Breakbulk cargo will be exempted from the facility maintenance fee when the cargo is valued less than \$2,500</i></p> <p><i>Note: When the basis of the freight charges for breakbulk is not shown on the manifest, Port charges shall be assessed on the basis of weight or measurement, whichever will yield the greater revenue.</i></p>	Per Full Inbound/ Outbound Containers	\$33.64	Per Full Inbound Transshipped Containers	\$33.64	Per Revenue Ton for Breakbulk Cargo	\$ 1.82			
Per Full Inbound/ Outbound Containers	\$33.64									
Per Full Inbound Transshipped Containers	\$33.64									
Per Revenue Ton for Breakbulk Cargo	\$ 1.82									
9	<p>LINE HANDLING</p> <p><i>Effective : 1/01/2018</i></p> <p>Line Handling is the taking, releasing or shifting of vessel's lines on terminal facilities. The Port will provide the line handlers.</p> <p>The charges for line handling services for vessels will be as follows:</p> <table><tr><td></td><td><u>Straight Time</u></td><td><u>Overtime</u></td></tr><tr><td>Vessels (Up to 600 Feet LOA)</td><td>\$417.34</td><td>\$626.02</td></tr><tr><td>Vessels (Over 600 Feet LOA)</td><td>\$556.44</td><td>\$834.67</td></tr></table>		<u>Straight Time</u>	<u>Overtime</u>	Vessels (Up to 600 Feet LOA)	\$417.34	\$626.02	Vessels (Over 600 Feet LOA)	\$556.44	\$834.67
	<u>Straight Time</u>	<u>Overtime</u>								
Vessels (Up to 600 Feet LOA)	\$417.34	\$626.02								
Vessels (Over 600 Feet LOA)	\$556.44	\$834.67								
10	<p>SUPPLYING POWER TO VESSELS</p> <p><i>Effective : 1/01/2018</i></p> <p>At the request of the carrier, or their agent, electric power shall be supplied to vessels at the Guam Power Authority rates plus 20 %, plus the following service charges:</p> <p>For connecting light or power circuits to vessel when shore cables, plugs or motor connections are supplied by the Port, or for the extension of light or power circuits, the service charge shall be:</p> <table><tr><td>Connection Charge</td><td>\$14.81 plus time at the established man hour rates.</td></tr></table> <p>For installation of sub-meter, where necessary, the charge shall be:</p> <table><tr><td>Sub-Meter Installation</td><td>\$3.49 in addition to charges provided above.</td></tr></table> <p>Vessels moving of their own volition from one pier to another and requiring light or power connections shall be charged for such connection as provided herein, however, vessels berthed for repairs and moved by order of the Port will not be required to pay additional service charges, but shall, in lieu thereof, pay the time at the established labor charge-out rates and materials at cost in effecting connections and/or sub-meter charges provided.</p>	Connection Charge	\$14.81 plus time at the established man hour rates.	Sub-Meter Installation	\$3.49 in addition to charges provided above.					
Connection Charge	\$14.81 plus time at the established man hour rates.									
Sub-Meter Installation	\$3.49 in addition to charges provided above.									

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Section III - SHIP SERVICES TARIFF

Item #	Description				
11	<p>SUPPLYING FRESH WATER TO VESSELS</p> <p><i>Effective : 1/01/2018</i> Fresh water will be furnished to vessels at a rate 20% over the Guam Waterworks Authority's current rate per ton or a fraction of a metered ton plus the following service charges.</p> <p>In addition, a charge of \$48.70 will be levied to connect and disconnect hoses and couplings during established straight time hours. At other than established straight time hours the charge will be \$111.28.</p> <p><i>Note: Requests for water service should follow Regulation R-8 as presented in this tariff.</i></p>				
12	<p>PASSENGER ARRIVAL & DEPARTURE FEES</p> <p><i>Effective : 1/01/2018</i> The Arrival/Departure Facility Service Charge for vessels originating outside the Port of Guam shall be:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 80%;">For Each terminating or arriving passenger</td> <td style="text-align: right;">\$4.87</td> </tr> <tr> <td>For Each departing or originating passenger</td> <td style="text-align: right;">\$4.87</td> </tr> </table> <p><i>Note: All Passengers are subject to compliance with all applicable Federal and Territorial laws, rules and regulations.</i></p> <p><i>Note: No wharfage is billed on baggage when accompanying the passenger.</i></p>	For Each terminating or arriving passenger	\$4.87	For Each departing or originating passenger	\$4.87
For Each terminating or arriving passenger	\$4.87				
For Each departing or originating passenger	\$4.87				

Note: Items 13 – 19 intentionally left blank

Section IV – CONTAINER TARIFF

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Section IV - CONTAINER TARIFF

Item #	Description												
20	<p>CONTAINER WHARFAGE (Other than Transshipments)</p> <p><i>Effective : 1/01/2018</i></p> <table> <tr> <td>Inbound Loaded Containers under 25 feet</td><td style="text-align: right;">\$ 87.08</td></tr> <tr> <td>Outbound Loaded Containers under 25 feet</td><td style="text-align: right;">\$ 45.35</td></tr> <tr> <td>Inbound Loaded Containers over 25 feet</td><td style="text-align: right;">\$149.55</td></tr> <tr> <td>Outbound Loaded Containers over 25 feet</td><td style="text-align: right;">\$ 77.21</td></tr> </table> <p><u>Inbound Empty Containers:</u></p> <table> <tr> <td>Under 25 feet</td><td style="text-align: right;">\$3.63</td></tr> <tr> <td>Over 25 feet</td><td style="text-align: right;">\$4.87</td></tr> </table> <p><i>Note: Wharfage for outbound empties is included in the inbound rate.</i></p>	Inbound Loaded Containers under 25 feet	\$ 87.08	Outbound Loaded Containers under 25 feet	\$ 45.35	Inbound Loaded Containers over 25 feet	\$149.55	Outbound Loaded Containers over 25 feet	\$ 77.21	Under 25 feet	\$3.63	Over 25 feet	\$4.87
Inbound Loaded Containers under 25 feet	\$ 87.08												
Outbound Loaded Containers under 25 feet	\$ 45.35												
Inbound Loaded Containers over 25 feet	\$149.55												
Outbound Loaded Containers over 25 feet	\$ 77.21												
Under 25 feet	\$3.63												
Over 25 feet	\$4.87												
21	<p>STEVEDORING SERVICES</p> <p><i>Effective : 03/01/2012</i></p> <p>Services in connection with care, custody and control in the transfer of containers between the vessel and the container yard (CY) and other services as defined below:</p> <ol style="list-style-type: none"> 1. The first opening and last closing of hatches within capacity of the container crane. Other openings and closing will be charged labor charge out rates. If hatch covers cannot be removed or replaced within 15 minutes, stand-by charges will be assessed. 2. Preplanning meeting with vessel agents. 3. Conventional lashing/unlashing in stowage. 4. Documentation for Port Operation. 5. A single sequence of sorting and stacking empty and loaded containers as may be specified by the vessel. 6. Stevedoring labor during Straight Time Hours. Overtime and other differentials will apply during other than straight time hours. 7. Providing shore side equipment utilized in discharging/loading vessel. 8. Includes Vessel Dockage while vessel is loading or unloading. Time at the dock while not loading/unloading will be at stated dockage rates. 9. Includes Line Handling (During Straight Time Hours) & Port Entry Fee. 												
22	<p>STEVEDORING RATE</p> <p><i>Effective : 1/01/2018</i></p> <table> <tr> <td>Stevedoring Per Container</td><td style="text-align: right;">\$146.07</td></tr> </table> <p>This is a one-way charge for every container loaded or empty, and is subject to a minimum charge of ten (10) containers. For less than ten (10) containers, the labor and equipment charge-out rate will be applied.</p> <p>Once a container is discharged from the vessel to the ground, any future movements of that container while on port property will be charged through a special service request at the labor and equipment charge out rate.</p>	Stevedoring Per Container	\$146.07										
Stevedoring Per Container	\$146.07												

PORT AUTHORITY OF GUAM

Section IV - CONTAINER TARIFF

Item #	Description				
23	<p>CONTAINER HANDLING SERVICES</p> <p><i>Effective : 03/01/2012</i></p> <p>Use of working areas, facilities at the terminal and services in connection with checking, care, custody and control to transfer containers between the CY and an over the road carrier as defined below.</p> <ol style="list-style-type: none"> 1. Receiving documentation for receipt or delivery of the container. 2. Providing the CY equipment to receive or deliver the container 3. Gate Services other than surveying 4. Sorting and planning layout of containers and chassis in the CY as determined by the Port. 5. Tower Services <p>Issuing and receiving of containers during straight-time hours, Monday through Friday, 0800 to 1200 and 1300 to 1700, except weekends, Government holidays and during normal meal times.</p> <p>Requests to open gates not normally open during this time will be assessed the appropriate Labor Charge Out Rate and Equipment Rate.</p>				
24	<p>CONTAINER HANDLING RATES IN CONTAINER YARD</p> <p><i>Effective : 1/01/2018</i></p> <table style="width: 100%; border: none;"> <tr> <td>Containers on Chassis or Grounded in Stacks(Other than Reefers)</td><td style="text-align: right;">\$171.02</td></tr> <tr> <td>Refrigerated Containers on Chassis (Incl. Power in Free Time)</td><td style="text-align: right;">\$300.44</td></tr> </table> <p>This is a one way charge for every container loaded or empty and is subject to a minimum charge of ten (10) containers. For less than ten, the labor and equipment charge rates will be applied.</p>	Containers on Chassis or Grounded in Stacks(Other than Reefers)	\$171.02	Refrigerated Containers on Chassis (Incl. Power in Free Time)	\$300.44
Containers on Chassis or Grounded in Stacks(Other than Reefers)	\$171.02				
Refrigerated Containers on Chassis (Incl. Power in Free Time)	\$300.44				
25	<p>REFRIGERATED CONTAINER CHARGES</p> <p><i>Effective : 6/01/2017</i></p> <p>The following charges are in addition to the normal handling and stevedoring charges for containers.</p> <table style="width: 100%; border: none;"> <tr> <td>Plug/Unplug containers to/from power outlets – per container</td><td style="text-align: right;">\$ 9.71</td></tr> <tr> <td>Power Consumption of Pre-Trip Reefer Containers – Per container</td><td style="text-align: right;">\$68.18</td></tr> </table>	Plug/Unplug containers to/from power outlets – per container	\$ 9.71	Power Consumption of Pre-Trip Reefer Containers – Per container	\$68.18
Plug/Unplug containers to/from power outlets – per container	\$ 9.71				
Power Consumption of Pre-Trip Reefer Containers – Per container	\$68.18				

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Section IV - CONTAINER TARIFF

Item #	Description						
26	<p>TRANSSHIPMENT CONTAINER SERVICES</p> <p><i>Effective : 03/01/2012</i></p> <p>Loaded Containers from 1st Carrier:</p> <ul style="list-style-type: none"> • Discharge from 1st carrier • Load to 2nd carrier • Lashing <p>Returning Transshipment Empties:</p> <ul style="list-style-type: none"> • Discharge from 2nd carrier • Load on 1st carrier vessel • Lashing • Equipment rental • Wharfage <p>Empty Transshipment Containers</p> <ul style="list-style-type: none"> • Discharge from 1st carrier. • Load on 2nd carrier • Lashing • Equipment rental • Wharfage 						
27	<p>TRANSSHIPMENT CONTAINER RATES & PROVISIONS</p> <p><i>Effective : 1/01/2018</i></p> <p>Note: Rates include Wharfage, Stevedoring and Handling charges.</p> <table> <tr> <td>Loaded Container (Assessed to 1st Carrier)</td><td>\$290.01</td></tr> <tr> <td>Empty Returning Transshipment Containers</td><td>\$166.80</td></tr> <tr> <td>Empty Transshipment Containers</td><td>\$166.80</td></tr> </table> <p><i>Note: Provided that the cargo is declared as Transshipment by the 1st carrier and the cargo does not leave the control of the Port while awaiting transshipment and the 2nd carrier's bill of lading provided by the agent involved indicates the 1st carrier vessel's name, voyage number, and other pertinent information, freight assessed full inward charges may be transshipped by water from the same wharf where received or may be transferred direct to any other wharves or facilities owned by the Port for transshipment or delivery to an outbound carrier without being subject to wharfage, stevedoring, and handling charges for the outbound.</i></p>	Loaded Container (Assessed to 1st Carrier)	\$290.01	Empty Returning Transshipment Containers	\$166.80	Empty Transshipment Containers	\$166.80
Loaded Container (Assessed to 1st Carrier)	\$290.01						
Empty Returning Transshipment Containers	\$166.80						
Empty Transshipment Containers	\$166.80						

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Section IV - CONTAINER TARIFF

Item #	Description
28	FREE TIME PERIODS <i>Effective : 03/01/2012</i> Free Time is computed from the first working day at 8:00 a.m. occurring after freight is received or unloaded on the wharf or wharf premises, or in case freight is from a vessel, from the first working day at 8:00 a.m. occurring after vessel completes discharge In the case of export, transshipment, and empties which are accruing demurrage charges, such charges shall cease on the date stevedoring services are performed.
29	FREE TIME – IMPORT & EXPORT (I & E) LOADED CONTAINERS <i>Effective : 03/01/2012</i> Dry Containers will be allowed - 5 Working Days Hazardous Containers (Class 1-8) will be allowed 2 Calendar Days
30	FREE TIME – EMPTY (I & E) CONTAINERS <i>Effective : 03/01/2012</i> Empty Containers will be allowed - 5 Working days
31	FREE TIME – TRANSSHIPMENT CONTAINERS (Loads & Empties) <i>Effective : 03/01/2012</i> Transshipped Containers will be allowed - 15 Calendar Days Transshipped Hazardous Containers (Class 1-8) will be allowed 2 Calendar Days
32	FREE TIME – I & E REFRIGERATED CONTAINERS <i>Effective : 03/01/2012</i> I & E Operating Refrigerated containers will be allowed - 2 Working Days Transshipped Refrigerated containers will be allowed 2 Working Days
33	FREE TIME – HAZARDOUS, DAMAGED OR OFFENSIVE CARGO IN CONTAINERS <i>Effective: 03/01/2012</i> Regulated commodities, identified as Certain Dangerous Cargo (CDC) under the 49 CFR 176.415 and CFR 126.19, shall be allowed <u>no free time</u> and shall be subject to immediate movement direct from vessels and removal from the terminal premises. Hazardous cargo classified in classes 1-8 will be allowed 2 calendar days free time. See Item #27. Salvaged freight in damaged or offensive condition or offensive freight of any nature may, at the option of the Port, be refused any free time on the terminal and shall be subject to immediate removal.
34	FREE TIME - EXTENSION THEREOF <i>Effective : 03/01/2012</i> The General Manager may allow extension of free time if the request is made in writing, with proper justification from the Shipping Agent or the Cargo Owner.

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Section IV - CONTAINER TARIFF

Item #	Description																						
35	<p>WHARF DEMURRAGE</p> <p><i>Effective : 1/01/2018</i></p> <p>Wharf Demurrage is a charge assessed for providing storage in or on terminal facilities after the expiration of free time.</p> <p><u>Rates are Per Calendar Day or Fractional Part thereof:</u></p> <p>Loaded Containers – Wheeled or Stacked</p> <table> <tr> <td>20 feet or less (Day 6-10)</td><td>\$29.22</td></tr> <tr> <td>20 feet or less (Each Day Thereafter)</td><td>\$58.44</td></tr> <tr> <td>Over 20 feet (Day 6-10)</td><td>\$58.44</td></tr> <tr> <td>Over 20 Feet (Each Day thereafter)</td><td>\$116.88</td></tr> </table> <p>Empty Containers – Wheeled or Stacked</p> <table> <tr> <td>20 feet or over per day</td><td>\$ 9.75</td></tr> </table> <p>Transshipped Containers:</p> <table> <tr> <td>20 feet or less (Day 16-thereafter)</td><td>\$29.22</td></tr> <tr> <td>Over 20 feet (Day 16-thereafter)</td><td>\$58.44</td></tr> </table> <p>Chassis without Containers per day \$19.42</p> <p>All Operating Refrigerated Containers (Day 3-4) \$97.37</p> <p>All Operating Refrigerated Containers (Each Day thereafter) \$194.74</p> <p>Hazardous Containers (Class 1-8)(Other than CDC)</p> <table> <tr> <td>20 Feet or less (Day 3-4)</td><td>\$29.22</td></tr> <tr> <td>20 Feet or less (Each Day thereafter)</td><td>\$58.44</td></tr> <tr> <td>Over 20 Feet (Day 3-4)</td><td>\$58.44</td></tr> <tr> <td>Over 20 Feet (Each Day thereafter)</td><td>\$116.88</td></tr> </table>	20 feet or less (Day 6-10)	\$29.22	20 feet or less (Each Day Thereafter)	\$58.44	Over 20 feet (Day 6-10)	\$58.44	Over 20 Feet (Each Day thereafter)	\$116.88	20 feet or over per day	\$ 9.75	20 feet or less (Day 16-thereafter)	\$29.22	Over 20 feet (Day 16-thereafter)	\$58.44	20 Feet or less (Day 3-4)	\$29.22	20 Feet or less (Each Day thereafter)	\$58.44	Over 20 Feet (Day 3-4)	\$58.44	Over 20 Feet (Each Day thereafter)	\$116.88
20 feet or less (Day 6-10)	\$29.22																						
20 feet or less (Each Day Thereafter)	\$58.44																						
Over 20 feet (Day 6-10)	\$58.44																						
Over 20 Feet (Each Day thereafter)	\$116.88																						
20 feet or over per day	\$ 9.75																						
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20 Feet or less (Day 3-4)	\$29.22																						
20 Feet or less (Each Day thereafter)	\$58.44																						
Over 20 Feet (Day 3-4)	\$58.44																						
Over 20 Feet (Each Day thereafter)	\$116.88																						

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Section IV - CONTAINER TARIFF

Item #	Description
36	<p>CHASSIS REGISTRATION & CERTIFICATION</p> <p><i>Effective : 03/01/2012</i></p> <p>Proof of current Guam Registration and Safety Inspection for all operational bare chassis. All safety inspection documents shall be provided to the Port Authority of Guam Port Police Division listed in alpha/numerical order by chassis number. Registration and Safety Inspection documents must be made available for inspection by Port Authority personnel from time to time but at least annually. All chassis must be clearly marked on all four sides by agent or carrier name.</p> <p>Bare chassis found non-operational during vessel operation will be subtracted from the original count prior to billing.</p>
37	<p>REISSUE OF EMPTY CONTAINERS</p> <p><i>Effective : 1/01/2018</i></p> <p>Reissuing of empty containers for subsequent stuffing. \$69.55</p> <p><i>Note: If digging in stacks is required to locate specific container numbers, labor charge out rates will be in addition.</i></p>
38	<p>OTHER CONTAINER SERVICES</p> <p><i>Effective : 1/01/2018</i></p> <p>Any services associated with containerized cargo other than those outlined, shall be performed by the Port on the basis of its labor charge out and equipment rates, plus materials.(See Section VI of this Tariff)</p> <ul style="list-style-type: none"> • Overstow container(s) per container per move \$69.55 • Shifted Container(s) per container move \$83.01 • Rehandled container(s) per container move \$96.47 • Rehandled, Overstow or shifted HAZMAT containers \$96.47 • Rehandled, Overstow or shifted Reefer Containers \$109.91 • Specialized rigging for containers which cannot be accommodated by the container crane's lifting devices. Such specialized rigging services shall be charged per container per move. \$48.69

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Section IV - CONTAINER TARIFF

Item #	Description										
39	<p>OUT-OF GAUGE CARGO (OOG)</p> <p><i>Effective : 1/01/2018</i></p> <p>Containers containing Out of Gauge Cargo will be subject to a charge for each side of the cargo exceeding the container specification. Charge Per Side \$64.71</p> <p>Specialized rigging for containers containing Out of Gauge Cargo (OOG) shall be assessed a charge per container move in addition to the Out of Gauge Cargo (OOG) rate. Per Container \$48.69</p>										
40	<p>FUEL SURCHARGE - CONTAINERS</p> <p><i>Effective : 1/01/2018</i></p> <table> <tr> <td>Local Loaded Container (I/E)</td><td>\$ 7.76 Per Container Move</td></tr> <tr> <td>Empty Inbound/Outbound</td><td>\$ 7.76 “ “</td></tr> <tr> <td>Loaded Transshipment Container</td><td>\$15.52 “ “</td></tr> <tr> <td>Empty Transshipment Container</td><td>\$15.52 “ “</td></tr> <tr> <td>All Other Cargo on Container Vessels</td><td>\$ 0.46 Per Revenue Ton</td></tr> </table> <p><i>Notes:</i></p> <p><i>Fuel Surcharges will be adjusted quarterly on a basis to reflect current fuel prices.</i></p> <p><i>All charges will be billed to the first carrier.</i></p> <p><i>Surcharge on Transshipment Containers are billed to the 1st carrier and includes the 2nd carrier move.</i></p>	Local Loaded Container (I/E)	\$ 7.76 Per Container Move	Empty Inbound/Outbound	\$ 7.76 “ “	Loaded Transshipment Container	\$15.52 “ “	Empty Transshipment Container	\$15.52 “ “	All Other Cargo on Container Vessels	\$ 0.46 Per Revenue Ton
Local Loaded Container (I/E)	\$ 7.76 Per Container Move										
Empty Inbound/Outbound	\$ 7.76 “ “										
Loaded Transshipment Container	\$15.52 “ “										
Empty Transshipment Container	\$15.52 “ “										
All Other Cargo on Container Vessels	\$ 0.46 Per Revenue Ton										
41	<p>CHASSIS CHANGE</p> <p><i>Effective : 1/01/2018</i></p> <p>Removing a container from a chassis and placing it on another chassis.</p> <p>Rate Per Chassis Change \$41.73</p>										

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Section IV - CONTAINER TARIFF

Item #	Description
42	<p>HAZARDOUS CONTAINERIZED CARGO – ADDITIONAL CHARGES:</p> <p><i>Effective : 1/01/2018</i></p> <p>Additional charges are applicable over the normal container rates for import/export containers and breakbulk cargo categorized as Hazardous Cargo defined in this tariff.</p> <p>Cargo Requiring Permitting Per Bill of Lading \$68.23</p> <p>Removing Placards from Empty Containers – Per Placard \$33.64</p> <p><i>Note: Any fines assessed against the port for misapplication of placards by the carrier or shipper will be billed to the Agent/Carrier.</i></p>
43	<p>MANIFEST – CONTAINERS</p> <p><i>Effective : 03/01/2012</i></p> <p>All inbound documentation shall be made available to the Port Authority officials two (2) working days prior to vessel operation. Vessels calling from the CNMI must submit documentation 16 hours prior to vessel arrival. Outbound dock receipt and/or load list shall be distributed to Port Authority of Guam 24 hours prior to vessel arrival stowage plan shall be submitted prior to loading of vessel. All outbound cargo and freight manifest shall be made available to the Port Authority of Guam officials three (3) working days after completion of vessel operation, in numerical order as manifested.</p> <p><i>Note: If PAG must sort this information, the rate to provide this service is \$25 per hour. If documentation is not furnished within this time schedule a penalty of \$250 per day will be assessed by PAG until the documentation is furnished. In addition, the vessel will be sent to anchorage and standby time assessed by PAG.</i></p>
44	<p>CRANE SURCHARGE</p> <p><i>Effective : 03/01/2013</i></p> <p>Per Full Inbound/Outbound Container \$ 125.00</p> <p>Per Full Inbound Transshipped Container \$ 125.00</p>

Note: Item Numbers 45 – 49 intentionally left blank

SECTION V - BULK and BREAKBULK TARIFF

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Section V - BREAKBULK TARIFF

Item #	Description
50	WHARFAGE - BREAKBULK CARGO <i>Effective : 1/01/2018</i> In-bound Breakbulk Cargo – Per Revenue Ton \$4.87 Out-bound Breakbulk Cargo – Per Revenue Ton \$2.44 Transshipped Breakbulk Cargo – Per Revenue Ton \$2.44 Outbound Tuna – Per Revenue Ton \$4.87 Pipelines/Hoses-Inbound \$4.25 Pipelines/Hoses-Outbound \$4.25 <i>Note: Minimum Billing charges per Bill of Lading will be \$4.55 and \$2.28 respectively.</i> <i>Note: When the basis of the freight charges is not shown on the manifest, port charges shall be assessed on the basis of weight or measurements, whichever will yield the greater revenue.</i>
51	WHARFAGE SPECIALIZED <i>Effective : 1/01/2018</i> Out-bound Fish – Per Revenue Ton \$4.87 Out-bound (Other than Fish) – Per Revenue Ton \$2.44 In-bound Special Containers for Fish – Per Revenue Ton \$4.87 <i>Note: Minimum charges per Bill of Lading will be \$4.55 or \$2.28 respectively.</i>
52	WHARFAGE - CONDITIONS FOR NON-ASSESSMENT OF CHARGES ON TRANSSHIPPED CARGO <i>Effective : 03/01/2012</i> <p>Provided the cargo is declared as Transshipment by the first carrier and does not leave the control of the Port Authority of Guam while awaiting transshipment and the second carrier's bill-of-lading provided by the agent involved indicates the first carrier's vessel's name, voyage number, and other pertinent information, freight assessed full inward wharfage may be transshipped by water from the same wharf where received or may be transferred direct to any other wharves or facilities owned by the Port Authority for transshipment or delivery to an outbound carrier without being subject to further assessment of wharfage, stevedoring, and handling charges for the outbound.</p>

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Section V - BREAKBULK TARIFF

Item #	Description														
53	<p>WHARFAGE – BULK PETROLEUM PRODUCTS</p> <p><i>Effective : 03/02/2014</i></p> <p>Wharfage rates for the use of Port facilities in order to import, export, or store petroleum products, per 42-US gallon barrel shall be:</p> <table> <tr> <td>Import</td><td>\$0.50</td></tr> <tr> <td>Export</td><td>\$0.24</td></tr> <tr> <td>Bunkering</td><td>\$0.66</td></tr> <tr> <td>From truck to vessel when serviced at port piers</td><td>\$0.50</td></tr> <tr> <td>Direct to or from vessel through privately-owned pipelines located on Port property</td><td>\$0.44</td></tr> <tr> <td>Vessel to Vessel</td><td>\$0.50</td></tr> <tr> <td>Storage</td><td>\$1.13</td></tr> </table> <p>Unless otherwise provided, there will be additional charges for:</p> <ul style="list-style-type: none"> • All services not specifically described in the Tariff. • Use of Port facilities and any other terminal services for which specific rates are named in the Tariff which because of unusual conditions or requirements of users not normally incidental to such use or services, precludes the use of Port facilities or performance of such services at the rates named. • Service for clearing terminals of damage or cleaning up releases of petroleum products caused by users. • Services of Bunkering or oversight of waste oil facility or for any operation delayed on account of Bunkering, or oversight of waste oil facility 	Import	\$0.50	Export	\$0.24	Bunkering	\$0.66	From truck to vessel when serviced at port piers	\$0.50	Direct to or from vessel through privately-owned pipelines located on Port property	\$0.44	Vessel to Vessel	\$0.50	Storage	\$1.13
Import	\$0.50														
Export	\$0.24														
Bunkering	\$0.66														
From truck to vessel when serviced at port piers	\$0.50														
Direct to or from vessel through privately-owned pipelines located on Port property	\$0.44														
Vessel to Vessel	\$0.50														
Storage	\$1.13														
54	<p>WHARFAGE – DRY BULK CARGO</p> <p><i>Effective : 1/01/2018</i></p> <p>Wharfage rates for the use of Port facilities in order to import and export Dry Bulk materials.</p> <table> <tr> <td>Bulk Cargo, per ton</td><td>\$4.87</td></tr> </table>	Bulk Cargo, per ton	\$4.87												
Bulk Cargo, per ton	\$4.87														
55	<p>WHARFAGE - ARTICLES ON WHICH NONE WILL BE CHARGED</p> <p><i>Effective : 03/01/2012</i></p> <ul style="list-style-type: none"> • Authorized carrier or consignees' equipment taken on a wharf to move merchandise (but not for shipment). • Baggage when accompanying travelers, not including automobiles. • Cargo which a Vessel discharges and reloads prior to departure, in order to load or discharge other cargo (overstowed cargo). • Ship's stores, repair materials and dunnage lumber for use in ordinary stowage of freight, when all are intended for vessel's use, crew's consumption or repairs, unless Port Authority employees are required to account for such supplies or stores as may be received or discharged on the wharf. 														

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Section V - BREAKBULK TARIFF

Item #	Description
56	<p>STEVEDORING SERVICES</p> <p><i>Effective : 1/01/2018</i></p> <p>Services in connection with care, custody and control in the transfer of cargo between the vessel and the Transit Shed or Open Terminal area:</p> <ol style="list-style-type: none"> 1. The first opening and last closing of hatches within capacity of the crane. Other openings and closing will be charged labor charge out rates. If hatch covers cannot be removed or replaced within 15 minutes, stand-by charges will be assessed. 2. Preplanning meeting with vessel agents. 3. Documentation for Port Operation. 4. A single sequence of sorting and stacking as may be specified by the vessel. 5. Any shore side equipment utilized in discharging/loading vessel. 6. Rates include Dockage, Line handling & Port Entry Fee. <p>Breakbulk Stevedoring(Loose) - Per Revenue Ton \$19.33</p> <p>Unitized Breakbulk- Per Revenue Ton \$ 7.85</p> <p>Bulk Scrap Metal per Revenue Ton \$17.39</p> <p><i>Note: This is a one way charge and is subject to a minimum of 50 revenue ton per hatch. For less than 50 revenue tons, the labor and equipment charge out rate will be used.</i></p> <p><i>Units which are less than forty (40) cubic feet or less than two thousand (2,000) pounds shall be assessed a minimum charge of one (1) revenue ton</i></p> <p><i>Any services associated with handling of breakbulk and unitized cargo not enumerated above shall be charged at Port labor charge-out and equipment rates plus materials.</i></p> <p><i>Stevedoring & Handling of Bulk cargo will be assessed under Port Labor Charge-out and equipment rate.</i></p> <p><i>The Port will not be responsible for accountability of contents of unitized cargo. Accountability will be for the number of units manifested only.</i></p> <p><i>Once the cargo is discharged from the vessel to the ground any future movements of that cargo will be charged through a special service request at the labor charge-out and equipment charge out rate.</i></p>
57	<p>STEVEDORING - ROLL ON - ROLL OFF VEHICLES</p> <p><i>Effective : 1/01/2018</i></p> <p>Services will include vehicle surveying</p> <p>Vehicles Roll On – Roll-Off 6000 lbs. or less per vehicle \$13.91</p> <p>Vehicles Roll On – Roll-Off over 6000 lbs. per revenue ton per move \$ 7.85</p>

PORT AUTHORITY OF GUAM

Section V - BREAKBULK TARIFF

Item #	Description				
58	<p>HANDLING – BREAKBULK CARGO</p> <p><i>Effective : 1/01/2018</i></p> <p>Use of working areas, facilities at the terminal and services in connection with checking, care, custody and control to transfer cargo between the transit shed and outdoor storage.</p> <ol style="list-style-type: none"> 1. Receiving documentation for receipt or delivery of cargo. 2. Providing the CY equipment to receive or deliver the cargo. 3. Gate Services other than surveying 4. Sorting and planning layout of cargo as determined by the Port. 5. Tower Services <p>Issuing and receiving of cargo during straight-time hours, Monday through Friday, 0800 to 1200 and 1300 to 1700, except weekends, Government holidays and during normal meal times.</p> <p>Requests to open gates not normally open during this time will be assessed the appropriate Labor Charge Out Rate and Equipment Rate.</p> <table style="width: 100%; margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">Loose Breakbulk Per Revenue Ton</td><td style="text-align: right;">\$11.68</td></tr> <tr> <td style="text-align: right;">Unitized Breakbulk per Revenue Ton</td><td style="text-align: right;">\$ 9.75</td></tr> </table> <p><i>Note: Units which are less than forty (40) cubic feet or less than two thousand (2,000) pounds shall be assessed a minimum charge of one (1) ton</i></p>	Loose Breakbulk Per Revenue Ton	\$11.68	Unitized Breakbulk per Revenue Ton	\$ 9.75
Loose Breakbulk Per Revenue Ton	\$11.68				
Unitized Breakbulk per Revenue Ton	\$ 9.75				
59	<p>HANDLING - ROLL ON – ROLL OFF VEHICLES</p> <p><i>Effective : 1/01/2018</i></p> <table style="width: 100%; margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">Vehicles Roll On – Roll-Off 6000 lbs. or less per vehicle</td><td style="text-align: right;">\$34.79</td></tr> <tr> <td style="text-align: right;">Vehicles Roll On – Roll-Off over 6000 lbs. per revenue ton per move</td><td style="text-align: right;">\$ 9.75</td></tr> </table>	Vehicles Roll On – Roll-Off 6000 lbs. or less per vehicle	\$34.79	Vehicles Roll On – Roll-Off over 6000 lbs. per revenue ton per move	\$ 9.75
Vehicles Roll On – Roll-Off 6000 lbs. or less per vehicle	\$34.79				
Vehicles Roll On – Roll-Off over 6000 lbs. per revenue ton per move	\$ 9.75				

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Section V - BREAKBULK TARIFF

Item #	Description						
60	FREE TIME PERIODS <i>Effective : 03/01/2012</i> Free Time is computed from the first working day at 8:00 a.m. occurring after freight is received or unloaded on the wharf or wharf premises, or in case freight is from a vessel, from the first working day at 8:00 a.m. occurring after vessel completes discharge. In the case of export and transshipment which are accruing demurrage charges, such charges shall cease on the date stevedoring services are performed.						
61	FREE TIME -BREAKBULK <i>Effective : 03/01/2012</i> <table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Breakbulk cargo is allowed</td> <td style="text-align: right;">5 Working Days</td> </tr> <tr> <td>Transshipped Breakbulk cargo is allowed</td> <td style="text-align: right;">15 Calendar Days</td> </tr> <tr> <td>Hazardous Breakbulk cargo (Class 1-8) is allowed</td> <td style="text-align: right;">2 Calendar Days</td> </tr> </table>	Breakbulk cargo is allowed	5 Working Days	Transshipped Breakbulk cargo is allowed	15 Calendar Days	Hazardous Breakbulk cargo (Class 1-8) is allowed	2 Calendar Days
Breakbulk cargo is allowed	5 Working Days						
Transshipped Breakbulk cargo is allowed	15 Calendar Days						
Hazardous Breakbulk cargo (Class 1-8) is allowed	2 Calendar Days						
62	FREE TIME -LIVESTOCK <i>Effective : 03/01/2012</i> Livestock shall be allowed <u>no free time</u> and are only permitted to pass over the wharf subject to immediate loading.						
63	FREE TIME - EXTENSION THEREOF <i>Effective : 03/01/2012</i> The General Manager may allow extension of free time if the request is made in writing, with proper justification from the Shipping Agent or the Cargo Owner.						
64	WHARF DEMURRAGE <i>Effective : 1/01/2018</i> Breakbulk Wharf Demurrage is assessed to provide storage in or on terminal facilities after the expiration of free time unless prior arrangements have been made for other terminal storage. <table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Covered Storage – Per Day Per Revenue Ton</td> <td style="text-align: right;">\$20.88</td> </tr> <tr> <td>Outside Storage – Per Day Per Revenue Ton</td> <td style="text-align: right;">\$13.91</td> </tr> </table>	Covered Storage – Per Day Per Revenue Ton	\$20.88	Outside Storage – Per Day Per Revenue Ton	\$13.91		
Covered Storage – Per Day Per Revenue Ton	\$20.88						
Outside Storage – Per Day Per Revenue Ton	\$13.91						

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Section V - BREAKBULK TARIFF

Item #	Description
65	HEAVY LIFT CHARGES <i>Effective : 1/01/2018</i> Any single unit of cargo, other than containers, <i>as</i> defined in this tariff over 6,000 pounds and above shall, in addition to the rates it would otherwise be assessed, be assessed as listed below, except for motorized wheeled vehicles which are driven off/on the vessel over a ramp without utilizing any lifting equipment. However, motorized equipment or vehicle in excess of 6,000 pounds, which though wheeled, must be lifted off/on the vessel. Stevedoring Units over 6000 lbs.: Per 2000 lbs or fraction thereof \$2.91 Handling Units over 6000 lbs.: Per 2000 lbs or fraction thereof \$2.91
66	LONG LENGTH CHARGES <i>Effective : 1/01/2018</i> Any <u>single unit</u> of cargo over 45 feet in length and above shall, in addition to rates it would otherwise be assessed, shall be assessed the following rates: Over 45 feet and not over 50 feet \$22.66 Over 50 feet and not over 60 feet \$53.08 Over 60 feet and not over 70 feet \$68.36 Over 70 feet, for each 10 feet or fraction thereof \$14.11

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Section V - BREAKBULK TARIFF

Item #	Description								
67	<p>FUEL SURCHARGE</p> <p><i>Effective : 1/01/2018</i></p> <p>Bulk & Breakbulk Cargo – Per Revenue Ton \$ 0.46</p> <p><i>Note: The Fuel Surcharge will be adjusted quarterly on a basis to reflect current fuel prices.</i></p> <p><i>Fuel Surcharge above is applicable to Import, Export and Transshipments</i></p> <p><i>Fuel Surcharge is billed to the 1st carrier on Transshipments and includes the 2nd carrier</i></p>								
68	<p>MANIFEST – BULK & BREAKBULK</p> <p><i>Effective : 03/01/2012</i></p> <p>All inbound documentation shall be made available to the Port Authority officials two (2) working days prior to vessel operation. Vessels calling from the CNMI must submit documentation 16 hours prior to vessel arrival. Outbound dock receipts and/or load lists shall be distributed to Port Authority of Guam 24 hours prior to vessel arrival stowage plan shall be submitted prior to loading of vessel. All outbound cargo and freight manifest shall be made available to the Port Authority of Guam officials three (3) working days after completion of vessel operation, in numerical order as manifested.</p> <p><i>Note: If PAG must sort this information, the rate to provide this service is \$25 per hour. If documentation is not furnished within this time schedule a penalty of \$250 per day will be assessed by PAG until the documentation is furnished. In addition, the vessel will be sent to anchorage and standby time assessed by PAG.</i></p>								
69	<p>CRANE SURCHARGE</p> <p><i>Effective : 01/01/2013</i></p> <p>Per Revenue Ton for Breakbulk Cargo \$ 5.00</p> <p><i>Note: Crane surcharge is capped at \$105.00 per unit/item.</i></p>								
70	<p>STEVEDORING – ROLL ON – ROLL OFF</p> <p><i>Effective : 1/01/2018</i></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Per Revenue Ton for Ro/Ro-Breakbulk Cargo</td><td style="text-align: right;">\$15.17</td></tr> <tr> <td style="padding-left: 40px;">Unitized Breakbulk</td><td style="text-align: right;">\$ 5.93</td></tr> <tr> <td style="padding-left: 40px;">Wheeled Cargo (not self- propelled)</td><td style="text-align: right;">\$13.12</td></tr> <tr> <td style="padding-left: 40px;">Wheeled Cargo (ships chassis)</td><td style="text-align: right;">\$14.37</td></tr> </table>	Per Revenue Ton for Ro/Ro-Breakbulk Cargo	\$15.17	Unitized Breakbulk	\$ 5.93	Wheeled Cargo (not self- propelled)	\$13.12	Wheeled Cargo (ships chassis)	\$14.37
Per Revenue Ton for Ro/Ro-Breakbulk Cargo	\$15.17								
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Wheeled Cargo (not self- propelled)	\$13.12								
Wheeled Cargo (ships chassis)	\$14.37								

71	HANDLING – ROLL ON – ROLL OFF <i>Effective : 1/01/2018</i> Per Revenue Ton for Ro/Ro-Breakbulk Cargo \$ 9.16 <div style="display: flex; justify-content: space-between;"> <div>Unitized Breakbulk</div> <div>\$ 7.35</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Wheeled Cargo (not self- propelled)</div> <div>\$ 7.93</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Wheeled Cargo (ships chassis)</div> <div>\$ 8.68</div> </div>
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Note: Items numbered 72-79 intentionally left blank

SECTION VI - LABOR, EQUIPMENT, & OTHER CHARGES TARIFF

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Section VI - LABOR, EQUIPMENT & OTHER CHARGES TARIFF

Item #	Description																																																																																																																		
80	<p>LABOR CHARGE-OUT RATES</p> <p><i>Effective : 1/01/2018</i></p> <p>All services billed at the labor charge out rate will be charged at the hourly rates shown below. This rate includes straight time, overtime, holiday, OT differential, holiday differential and night shift differential.</p> <p>Unless otherwise provided, hourly charge out rates will be charged for:</p> <ul style="list-style-type: none">• All services not specifically described in the tariff• Operations involving less than 50 Revenue Tons per hatch or 10 containers loaded or unloaded in a continuous operation or unusual vessels and conditions.• Labor rates for Special Services Request are billed at a minimum of 1 hour.• Except as otherwise provided in individual items, charges for materials furnished in connection with services will be assessed at actual cost plus 30%. <p><i>(Rates below - \$ Per Hour)</i></p> <table><tr><th>Personnel</th><th>Straight Time</th><th>Over Time</th><th>O/T Differ.</th><th>Holiday Differ.</th><th>Night Shift Diff.</th></tr><tr><td>Account Technician</td><td>43.73</td><td>65.61</td><td>21.87</td><td>29.16</td><td>2.91</td></tr><tr><td>Auto Mechanics</td><td>54.82</td><td>82.24</td><td>27.41</td><td>36.54</td><td>3.65</td></tr><tr><td>Cargo Checkers</td><td>55.37</td><td>83.05</td><td>27.68</td><td>36.91</td><td>3.69</td></tr><tr><td>Carpenters</td><td>43.46</td><td>65.19</td><td>21.73</td><td>28.98</td><td>2.90</td></tr><tr><td>Clerks</td><td>35.31</td><td>52.96</td><td>17.65</td><td>23.54</td><td>2.36</td></tr><tr><td>Crane Mechanic</td><td>63.52</td><td>95.28</td><td>31.76</td><td>42.35</td><td>4.23</td></tr><tr><td>Crane Operator</td><td>63.52</td><td>95.28</td><td>31.76</td><td>42.35</td><td>4.23</td></tr><tr><td>Diesel Mechanic</td><td>69.72</td><td>104.58</td><td>34.86</td><td>46.47</td><td>4.65</td></tr><tr><td>Electrician</td><td>57.59</td><td>86.39</td><td>28.80</td><td>38.40</td><td>3.85</td></tr><tr><td>Equipment Oper.</td><td>59.25</td><td>88.88</td><td>29.63</td><td>39.50</td><td>3.95</td></tr><tr><td>Painters</td><td>45.91</td><td>68.87</td><td>22.95</td><td>30.61</td><td>3.07</td></tr><tr><td>Plumbers</td><td>51.97</td><td>77.96</td><td>25.99</td><td>34.65</td><td>3.47</td></tr><tr><td>PM Mechanic</td><td>54.82</td><td>82.24</td><td>27.41</td><td>36.54</td><td>3.65</td></tr><tr><td>Riggers</td><td>50.36</td><td>75.55</td><td>25.19</td><td>33.57</td><td>3.36</td></tr><tr><td>Safety Officers</td><td>55.64</td><td>83.46</td><td>27.82</td><td>37.09</td><td>3.71</td></tr><tr><td>Security Guards</td><td>34.73</td><td>52.11</td><td>17.37</td><td>23.15</td><td>2.31</td></tr><tr><td>Stevedores</td><td>50.86</td><td>76.29</td><td>25.42</td><td>39.18</td><td>3.92</td></tr><tr><td>Welders</td><td>59.35</td><td>89.02</td><td>29.67</td><td>39.58</td><td>4.75</td></tr></table>	Personnel	Straight Time	Over Time	O/T Differ.	Holiday Differ.	Night Shift Diff.	Account Technician	43.73	65.61	21.87	29.16	2.91	Auto Mechanics	54.82	82.24	27.41	36.54	3.65	Cargo Checkers	55.37	83.05	27.68	36.91	3.69	Carpenters	43.46	65.19	21.73	28.98	2.90	Clerks	35.31	52.96	17.65	23.54	2.36	Crane Mechanic	63.52	95.28	31.76	42.35	4.23	Crane Operator	63.52	95.28	31.76	42.35	4.23	Diesel Mechanic	69.72	104.58	34.86	46.47	4.65	Electrician	57.59	86.39	28.80	38.40	3.85	Equipment Oper.	59.25	88.88	29.63	39.50	3.95	Painters	45.91	68.87	22.95	30.61	3.07	Plumbers	51.97	77.96	25.99	34.65	3.47	PM Mechanic	54.82	82.24	27.41	36.54	3.65	Riggers	50.36	75.55	25.19	33.57	3.36	Safety Officers	55.64	83.46	27.82	37.09	3.71	Security Guards	34.73	52.11	17.37	23.15	2.31	Stevedores	50.86	76.29	25.42	39.18	3.92	Welders	59.35	89.02	29.67	39.58	4.75
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Section VI - LABOR, EQUIPMENT & OTHER CHARGES TARIFF

Item #	Description
81	<p>LABOR RATES - APPLICATION</p> <p><i>Effective : 03/01/2012</i></p> <p><i>Overtime & Holiday Differential Rates:</i></p> <p>In connection with any stevedoring function, except special services, labor shall be charged at overtime differential in addition to the regular stevedoring charges, or differential of 100 percent on employees working on legal holidays according to the schedule on Labor Charge Out Rates.</p> <p>Overtime hours shall be defined as any hours in excess of eight hours in a single shift of any workday. Overtime shall also include Saturdays and Sundays for operation's employees assigned to the loading and unloading of cargoes.</p> <p><i>Night Differential Rates:</i></p> <p>A surcharge will be added for all work performed between 1800 hours to 0600 hours and will be charged on the basis of rates shown in the schedule of Man-Hour Charge-Out Rates.</p> <p><i>Detention or Stand-by-Time:</i></p> <p>When employees of the Port are ordered for water carriers and are required to standby due to vessel power failure, vessel gear failure, or for any other reasons through no fault of the Port Authority, the charge-out rate will be assessed. If employees of the Port are directed to stand-by at the request of the carrier or agent the charge-out rate will be assessed.</p> <p><i>Guaranteed Shift Pay:</i></p> <p>When employees of the Port are ordered for water carriers and the vessel completes loading or discharges prior to completion of a shift or half shift, water carriers will be assessed the unused hours on the basis of the Labor Charge-Out Rate if no other port work is available.</p> <p><i>Meal-Time Penalty:</i></p> <p>When stevedores and related personnel are requested to work through their regularly scheduled meal period, the carrier will be assessed the overtime differential rate for each employee involved in addition to the regular stevedoring charges.</p>

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Section VI - LABOR, EQUIPMENT & OTHER CHARGES TARIFF

Item #	Description														
	<p><i>Cancellation Time:</i></p> <p>When a cancellation notice is given to the Port after the master vessel work schedule has been completed and the port employees has been ordered for operations, the water carrier will be assessed a minimum charge of two straight time or overtime hours at the Labor Charge Out Rate for each employee assigned to the vessel operations.</p> <p>When employees of the Port have reported to work and cancellation notice is given to the Port, before four hours have elapsed since the scheduled starting time, the water carriers will be assessed four hours at the Charge-Out Rate for each employee involved at straight time or overtime rate with other differentials as appropriate.</p> <p>When employees of the Port have reported to work and cancellation notice is given to the Port after four hours of work has been performed, but prior to the completion of a minimum eight hour shift, the water carriers will be assessed the unused hours at the charge-out rate for each employee involved.</p> <p><i>Note: The above is based on a minimum of eight-hour shift.</i></p>														
82	<p>LABOR - PENALTY RATES</p> <p><i>Effective : 1/01/2018</i></p> <p>Charges assessed carriers, agents or other persons responsible for stevedoring charges other than those included with the rate schedule above, in addition to the straight-time rates included in the Stevedoring and Handling Charge for inbound and outbound cargo for penalties compensated to individuals under applicable Port Personnel Rules and Regulations.</p> <p>Schedule of Rates Per Man Hour:</p> <table> <tr> <td>Cleaning Ship's Oil Tanks (Hatch Only)</td><td>\$4.86</td></tr> <tr> <td>Reefer Cargo (Hatch & Container Work)</td><td>\$1.38</td></tr> <tr> <td>Handling Noxious Cargo (Hatch Work)</td><td>\$7.43</td></tr> <tr> <td>Bagged Cement (Hatch Work)</td><td>\$4.86</td></tr> <tr> <td>Scrap Metal Cargo (Hatch Work)</td><td>\$4.86</td></tr> <tr> <td>Ammunition or Explosive Cargo</td><td>\$4.86</td></tr> <tr> <td>Bulk Cement (Hatch Work)</td><td>\$7.43</td></tr> </table>	Cleaning Ship's Oil Tanks (Hatch Only)	\$4.86	Reefer Cargo (Hatch & Container Work)	\$1.38	Handling Noxious Cargo (Hatch Work)	\$7.43	Bagged Cement (Hatch Work)	\$4.86	Scrap Metal Cargo (Hatch Work)	\$4.86	Ammunition or Explosive Cargo	\$4.86	Bulk Cement (Hatch Work)	\$7.43
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Scrap Metal Cargo (Hatch Work)	\$4.86														
Ammunition or Explosive Cargo	\$4.86														
Bulk Cement (Hatch Work)	\$7.43														

PORT AUTHORITY OF GUAM

Section VI - LABOR, EQUIPMENT & OTHER CHARGES TARIFF

Item #	Description						
83	<p>EQUIPMENT RENTAL RULES & APPLICABILITY</p> <p><i>Effective : 03/01/2012</i></p> <p>The following charges are for use or services of the equipment in conjunction with any services not included in the Cargo Rates or for other purposes. The rates listed below are in charges per hour, or fraction thereof, and include fuel and maintenance. <i>Equipment operators and other necessary personnel will be charged at the applicable labor Charge-Out Rates.</i></p> <p><i>Additional Equipment Rental Charges</i></p> <p>The following will be billed at regular hourly rates on equipment rental: Actual travel time to and from site of work, if site is not within Port Authority facility and Time consumed in removing crane boom for travelling and reassembling.</p> <p><i>Use of Port Equipment</i></p> <p>When equipment listed below is used in special service or other purposes is diverted to other uses at the discretion of the Port, the user shall be charged on an accumulated time basis that the equipment is used per shift, but not less than the minimum charges specified.</p>						
84	<p>PORTABLE LIGHT UTILIZATION CHARGES</p> <p><i>Effective: 1/01/2018</i></p> <p>Charges for Portable Lights will be as follows. <i>Gas price will be adjusted quarterly to reflect cost of gasoline plus handling:</i></p> <table> <tr> <td>One Time Charge for Set up -</td><td style="text-align: right;">\$138.58</td></tr> <tr> <td>Use per day or fractional part thereof -</td><td style="text-align: right;">\$695.55</td></tr> <tr> <td>Gas use per gallon -</td><td style="text-align: right;">\$ 4.94</td></tr> </table>	One Time Charge for Set up -	\$138.58	Use per day or fractional part thereof -	\$695.55	Gas use per gallon -	\$ 4.94
One Time Charge for Set up -	\$138.58						
Use per day or fractional part thereof -	\$695.55						
Gas use per gallon -	\$ 4.94						
85	<p>AUTO DEVANNING AND STUFFING</p> <p><i>Effective: 1/01/2018</i></p> <p>Services shall include blocking, unblocking, and surveying of vehicles. Blocking materials ex carrier's devanned vehicles shall be made available for stuffing export vehicles. Any and all additional materials required for the stuffing export vehicles will be for the account of the carrier.</p> <table> <tr> <td>Auto Devanning and Stuffing per vehicle</td><td style="text-align: right;">\$208.67</td></tr> </table>	Auto Devanning and Stuffing per vehicle	\$208.67				
Auto Devanning and Stuffing per vehicle	\$208.67						

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Section VI - LABOR, EQUIPMENT & OTHER CHARGES TARIFF

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EQUIPMENT UTILIZATION CHARGES

Effective: 1/01/2018

<u>Equipment</u>	<u>Straight - Time Per Hour (\$)</u>	<u>Minimum Charge/Hrs.</u>
Battery Charger	22.26	1
Compressor	34.30	1
Forklift - 20,000 lbs, but less 40,000 lbs	69.55	1
Forklift - Over 40,000 lbs.	77.91	1
Forklift - Under 20,000 lbs.	41.73	1
Gantry Crane, Heavy Lifts	548.10	2
Impact Wrench	7.13	1
Man Lift	64.71	1
Pick-up Truck - 3/4 ton or less	27.82	1
Side Lifter	48.70	1
Top Lifter	83.46	1
Tractor	47.29	1
Welding Machine	47.29	1

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Section VI - LABOR, EQUIPMENT & OTHER CHARGES TARIFF

Item #	Description
87	<p>CARGO PALLETS - RULES AND CHARGES GOVERNING THE USE THEREOF</p> <p><i>Effective: 03/01/2012</i></p> <p>The term "Cargo Boards" and "Pallets" are understood to have the same meaning. When available, stevedore type cargo pallets, may be used directly in the transfer of waterborne cargo to and from the terminals under the terms and conditions outlined herein</p> <p>Use of the Port's owned and controlled pallets:</p> <ul style="list-style-type: none"> • Return said pallets to Port terminals in like order and condition within a period of ten (10) calendar days from date of receipt and to pay a charge for the use <div style="text-align: right;">\$0.54</div> <p style="margin-left: 40px;">Per Pallet Per Day</p> <p style="margin-left: 40px;"><i>The port will issue receipt for pallets returned in good condition and order.</i></p> • Rate per pallet for any pallet not returned at the end of this period <div style="text-align: right;">\$37.62</div> <p style="margin-left: 40px;">Per Pallet</p> <p><i>Note: When a trucker, consignee, shipper, or other party carries a stock of pallets constructed in a manner identical to and in all other ways acceptable for interchange, with the standard pallets controlled by the Port, the Port will:</i></p> <ul style="list-style-type: none"> • <i>Release cargo on pallets and accept in exchange a like number of identical pallets in like good order and condition, or</i> • <i>Release empty pallets for a like number of identical pallets received for outbound, all pallets to be in good order and condition</i>

PORT AUTHORITY OF GUAM

Section VI - LABOR, EQUIPMENT & OTHER CHARGES TARIFF

Item #	Description																								
88	LEASE OF SUBMERGED LAND PARCELS <i>Effective: 03/01/2012</i> Lease rates are Per Sq. Foot Per Month: <table><tr><th><u>Property</u></th><th><u>Zone 1</u></th><th><u>Zone 2</u></th><th><u>Zone 3</u></th></tr><tr><td>1</td><td>\$0.11</td><td>\$0.08</td><td>\$0.04</td></tr><tr><td>2</td><td>\$0.08</td><td>\$0.05</td><td>\$0.03</td></tr><tr><td>3A</td><td>\$0.04</td><td>\$0.03</td><td>\$0.02</td></tr><tr><td>3B</td><td>\$0.002</td><td>\$0.001</td><td>\$0.001</td></tr><tr><td>4</td><td>\$0.04</td><td>\$0.03</td><td>\$0.02</td></tr></table> <p><i>Note: Rates may vary if landfill is required. Properties are defined as follows.</i></p> <div><p>MAP IDENTIFYING SUBJECT PROPERTIES Piti, Island of Guam</p><p>LEGEND</p><p>Subject Property No. 1</p><p>Subject Property No. 2</p><p>Subject Property No. 3</p><p>Subject Property No. 4</p><p>North</p></div>	<u>Property</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	1	\$0.11	\$0.08	\$0.04	2	\$0.08	\$0.05	\$0.03	3A	\$0.04	\$0.03	\$0.02	3B	\$0.002	\$0.001	\$0.001	4	\$0.04	\$0.03	\$0.02
<u>Property</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>																						
1	\$0.11	\$0.08	\$0.04																						
2	\$0.08	\$0.05	\$0.03																						
3A	\$0.04	\$0.03	\$0.02																						
3B	\$0.002	\$0.001	\$0.001																						
4	\$0.04	\$0.03	\$0.02																						

PORT AUTHORITY OF GUAM

Section VI - LABOR, EQUIPMENT & OTHER CHARGES TARIFF

Item #	Description
89	<p>HOT WORK PERMIT</p> <p><i>Effective: 1/01/2018</i></p> <p>Tenants and customers that need to do any form of welding, cutting, grinding, chipping, or any spark-producing operations inside the Port's area of responsibility must apply for a Hot Work Permit at the Safety Office on a daily basis.</p> <p>To ensure that all hot work conducted in the facility complies with the requirements of 33 CFR 126.30 section Port Safety Inspectors will conduct inspections on all "Hot Work Permit" issued.</p> <p>Port Safety Inspectors or U.S. Coast Guard personnel may conduct random inspections for compliance and fire prevention.</p> <p>If a hot work permit is deemed by the Port to pose a danger when the vessel is moored to a berth, the Port reserves the right to require the work to be performed at anchorage.</p> <p>Any violation of the conditions of the hot work permit may result in work stoppage, suspension of the permit and/or civil penalty.</p> <p style="text-align: right;">Per permit, per day \$33.64</p>
90	<p>SUPPLYING POWER TO OTHER THAN PAG EQUIPMENT</p> <p><i>Effective: 1/01/2018</i></p> <p>Upon request the port will provide power to port users who operate with other than PAG equipment. Electric power shall be supplied at the same rates that the Guam Power Authority would charge for the service if supplied directly, plus the following service charges:</p> <p>For connecting light or power circuits, plugs or motor connections are supplied by the Port, or for the extension of light or power circuits, the service charger shall be:</p> <p>Connection Charge \$14.81 plus time at the established man hour rates.</p> <p>For installation of sub-meter, where necessary, the charge shall be:</p> <p>Sub-Meter Installation \$3.49 in addition to charges provided above.</p>

Note: Items numbered 91-99 intentionally left blank

APPENDIX B

GENERAL INFORMATION REGARDING THE TERRITORY OF GUAM

Guam is the westernmost territory of the United States of America (the “U.S.”), as well as the largest and southernmost island of the Marianas archipelago, and the largest of the 2,000 islands in Micronesia. Located at 13 degrees north latitude, 144 degrees east longitude in the western Pacific Ocean, the island is about 30 miles long and varies from four to nine miles wide, with a total land area of approximately 212 square miles. Guam is approximately 3,800 miles west-southwest of Honolulu, Hawaii, 1,550 miles south-southeast of Tokyo, Japan and 1,600 miles east of Manila, Philippines. The Mariana Trench, which has the deepest known ocean depth (36,070 ft.), extends from northeast to southwest of Guam. The U.S. Census Bureau estimates Guam’s population in 2018 is approximately 167,000.

Guam was first settled approximately 4,000 years ago. Its strategic location in the western Pacific has historically made it a desirable property for the world’s superpowers. The indigenous Chamorro people first came in contact with Europeans in 1521 when Ferdinand Magellan landed at Guam’s Umatac Bay. Miguel Lopez de Legazpi claimed the island for Spain in 1565. Spanish colonization of Guam began in 1668 and lasted until the end of the Spanish-American War in 1898. As outlined in the Treaty of Paris, signed in December 1898, Guam was ceded to the U.S. along with Cuba, Puerto Rico, and the Philippines. Guam has since remained under U.S. administration, except for two and a half years of Japanese occupation during World War II. On July 21, 1944, U.S. forces recaptured Guam and reestablished a naval government. In 1950, the U.S. Congress passed the Organic Act of Guam (the “**Organic Act**”) granting the Chamorro people U.S. citizenship and establishing a civilian government.

Guam’s current political status is that of an unincorporated territory of the U.S. The organization and powers of the Government of Guam (the “**Government**”) are determined by the Organic Act. The Government consists of three branches: executive, legislative and judicial. A governor (the “**Governor**”), elected at large every four years, heads the executive branch. The Government maintains a staff of approximately 11,680 employees (as of December 2017, the most recent date for which such information is available) under the direction of the Governor and the Governor’s department heads. The unicameral legislature consists of 15 senators elected at large every two years. The judicial branch consists of the Superior Court of Guam, which is the court of general trial jurisdiction, and the Supreme Court of Guam, the court of highest appeal, established in 1996. Guam also has a Federal District Court and is within the jurisdiction of the Ninth Circuit U.S. Court of Appeals and the U.S. Supreme Court. Guam has one non-voting representative to the U.S. House of Representatives elected at large every two years.

Tourism revenues and U.S. federal and military spending contribute to Guam’s economy. Guam’s location in the Pacific region, a three to five hour flight from many Asian countries, greatly contributes to the diversity of the island’s population and the visitor industry. This geographic feature also provides U.S. military operations with significant flexibility compared to other locations in the Pacific and Asia.

On September 5, 2017, the Bureau of Economic Analysis of the U.S. Department of Commerce (“**BEA**”) released its estimates of gross domestic product (“**GDP**”) and gross domestic income (“**GDI**”) for Guam for 2016. As set forth in Table B-1, the BEA’s estimates indicate that Guam’s GDP grew from \$5.199 billion in 2012 to \$5.793 billion in 2016. The 2016 GDP figure consists of approximately \$3.255 billion of personal consumption expenditures, \$3.185 billion of government consumption expenditures, and \$1.194 billion of private fixed investment less \$1.841 billion in net exports of goods and services. The BEA also estimates that Guam’s real per capita GDP, measured in 2009 dollars adjusted for inflation, grew from \$31,202 in 2012 to \$31,961 in 2016.

Guam’s real GDP increased 0.4% in 2016 after increasing 0.5% in 2015. The increase in Guam’s real GDP in 2016 resulted primarily from an increase in consumer spending and exports of services. Consumer spending continued to increase in 2016 reflective of the growth in retail trade activity. The increase in exports of services grew for a third consecutive year in 2016, which consists primarily of spending by tourists. According to the BEA, the 2016 increase reflected growth in South Korean visitor arrivals and average spending by South Korean tourists. However, these increases were partially offset by decreases in investment spending, both in the government and the private sector. Government spending on investment declined in 2016 due to a decrease in defense construction contracts and the substantial completion of the Guam Commercial Port Improvement Program by the Jose D. Leon

Guerrero Commercial Port, also known as the Port Authority of Guam (the “**Port Authority**”) in 2015. Moreover, business spending on construction and equipment decreased as major projects, including the construction of a new private hospital, and a new luxury hotel in Tumon, were completed in 2015.

TABLE B-1
GUAM GROSS DOMESTIC PRODUCT
CALENDAR YEARS 2012 – 2016
(Millions of Dollars)

<u>Calendar Year</u>	<u>Gross Domestic Product</u>
2012	5,199
2013	5,337
2014	5,531
2015	5,697
2016	5,793

Source: U.S. Department of Commerce Bureau of Economic Analysis.

Spending by tourists makes up the vast majority of Guam’s exports of services. Guam’s net real exports of services increased 2.0% in 2015 and increased 7.7% in 2016. Guam’s real consumer spending on goods and services increased 0.6% in 2015 and increased 1.6% in 2016. According to the Government of Guam Bureau of Statistics and Plans, consumer prices increased 6.0% in 2016 over the same period in the previous year.

Average annual individual income for residents of Guam has increased from \$27,610 in 2005 to \$34,790 in 2016, a compound annual growth rate of 2.1%, according to the U.S. Department of Labor Bureau of Labor Statistics.

The Port Authority operates the Jose D. Leon Guerrero Commercial Port (the “**Port**”), the only commercial seaport in the Territory of Guam and the primary seaport in Micronesia. The Port consists of a cargo terminal, industrial terminal, four berths, cargo handling equipment and numerous support buildings and facilities. The Port’s facilities are located on Cabras Island along the northern shoreline of the Outer Apra Harbor, a natural lagoon enclosed by a submerged coral bank and a barrier reef enhanced with a breakwater. More than 90% of the total volume of goods and supplies needed to support activities on Guam flow through the Port.

The U.S. flag carriers serving Guam include Matson, Inc. (“**Matson**”), American President Lines (“**APL**”), Seabridge (“**Seabridge**”), and Waterman Steamship Corp. (“**Waterman**”). Matson is the only U.S. carrier that is fully compliant with the requirements of the Jones Act. The other three U.S. flag carriers operate foreign-built, U.S. flagged vessels.

The foreign flag carriers serving Guam include Marianas Express Lines Limited and Kyowa Shipping Co. In addition to serving the Guam-Asia market, these foreign flag carriers provide the majority of transshipment services to other non-U.S. territory ports in the region (e.g., the Port of Saipan, the Port of Majuro and other smaller ports).

DEMOGRAPHIC AND ECONOMIC INFORMATION

Geography and Climate

The island of Guam was formed by an uplift of undersea volcanoes. It is surrounded by coral reefs near the shore and consists of two distinct areas of approximate equal size. The northern region of Guam is a high coralline limestone plateau rising up 850 feet above sea level. It contains the northern water lens, which is the main source of fresh water on the island. The southern region of Guam is mountainous with elevations of 700 to 1,200 feet above sea level. Apra Harbor, one of the largest protected deep-water harbors in the world, is located on the western side of the island.

Guam's climate is pleasantly warm year-round. The mean annual temperature is 85 degrees Fahrenheit. The general temperature ranges from the low 70s to mid-80s degrees Fahrenheit. Annual rainfall averages 85 inches in the western coastal area to 110 inches in the highest mountain locations in the south. Three quarters of the total annual rainfall occurs between the months of June and December.

Like other Pacific islands, Guam is periodically subject to typhoons and tropical storms. From 1962 to date, the eyes of twelve tropical storms passed directly over or just south of the island. Eight typhoons caused damage great enough to result in federal disaster relief: Super Typhoon Karen in 1962, Typhoon Pamela in 1976, Typhoon Russ in 1990, Super Typhoon Omar in 1992, Super Typhoon Paka in 1997, Typhoon Chata'an and Super Typhoon Pongsona in 2002 and Typhoon Dolphin in May 2015. In 2002, Guam adopted the International Building Code, and has subsequently adopted the 2009 Edition, requiring all new construction to be designed to tolerate wind velocities of 155 miles per hour. In 2015, Typhoon Dolphin struck the island with winds exceeding 100 miles per hour. While Guam sustained damage from the storm primarily to its agriculture lands, the island recovered quickly, in part due to targeted efforts to strengthen the island's infrastructure. Due to its location near the Mariana Trench, Guam also occasionally experiences seismic activity, including earthquakes and tsunamis. Other than a major earthquake of 8.1 magnitude on August 8, 1993, which also created a minor tsunami, no recent earthquakes or tsunamis have caused significant damage on Guam.

Economic Indicators

Population

Guam's residents originate from all parts of the Asia-Pacific region in addition to the U.S. mainland. In addition to Guam's indigenous Chamorro people, who comprise approximately 47% of the population, large numbers of mainland Americans, Filipinos, Chinese, Japanese, and South Koreans constitute the bulk of Guam's population. There are also substantial numbers of Micronesian islanders, Vietnamese and East Indians. Guam's diverse population makes it one of the most cosmopolitan communities in the western Pacific.

The U.S. Census estimates that Guam's population in 2018 is approximately 167,800. Guam currently has 41 public schools, 24 private schools, four U.S. Department of Defense ("DoD") schools, two charter schools, one community college and one university. Approximately 31,000 students attend Guam's elementary and secondary schools. Both Guam Community College and the University of Guam are accredited by the Western Association of Schools and Colleges. The University of Guam is the only accredited four-year institution of higher learning in the western Pacific, and it offers graduate programs in select areas of study.

Employment

Approximately 75% of Guam's workforce is employed in the private sector, with the remainder in government, both local and federal. Guam's individual and household incomes have fairly equal distributions, as compared to other nations, islands, or territories in similar stages of economic development.

The island saw steady job growth in all sectors, as the total number of jobs increased from 61,910 in 2013 to 62,860 in 2017, a growth of 1.5% over the 5-year period. The private sector saw the biggest increase in jobs, especially in the retail-trade and services industries. Employment grew significantly between 2014 and 2015, due in part to the growth in tourism as well as the opening of the new private hospital and the Dusit Thani Guam Resort.

Data for 2017 shows the private sector jobs and total employment decreased slightly from the comparable period of one year ago. The total number of construction jobs over the year has declined by 240 while the number of non-construction jobs decreased by 220. The industry job gains over the year were only from finance, insurance and real estate, which was up by 40 jobs. There were 170 less Federal jobs and 80 more Government jobs in December 2017 than in December 2016. The total employment in 2017 declined by 550 jobs or by 0.87%.

The distribution of civilian employment in Guam based on payrolls as of December 31 for calendar years 2013 through 2017 is listed by industry in Table B-2. Excluded from the civilian employment estimates in Table B-2 are self-employed individuals, active duty military personnel, proprietors, volunteers and unpaid family

workers. The payroll survey in Table B-2 includes all civilian personnel on payroll, including multiple jobholders counted at each place of employment, and nonresident alien workers.

TABLE B-2
Civilian Employment⁽¹⁾
(as of December for Calendar Years 2013- 2017)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Private sector:</u>					
Agriculture	160	180	280	270	250
Construction	7,120	6,070	6,770	6,090	5,850
Manufacturing	1,420	1,320	1,600	1,540	1,500
Transportation & Public Utilities	4,810	4,710	4,500	4,450	4,380
Wholesale Trade	2,250	2,370	2,490	2,370	2,340
Retail Trade	11,540	11,670	11,550	12,420	12,360
Finance, Insurance, and Real Estate	2,530	2,460	2,490	2,570	2,610
Services	16,490	17,750	18,150	18,140	18,100
Total private	<u>46,320</u>	<u>46,530</u>	<u>47,830</u>	<u>47,850</u>	<u>47,390</u>
<u>Public sector:</u>					
Federal Government	4,020	4,110	4,030	3,960	3,790
Government of Guam ⁽²⁾	<u>11,570</u>	<u>11,730</u>	<u>11,890</u>	<u>11,600</u>	<u>11,680</u>
Total public	<u>15,590</u>	<u>15,840</u>	<u>15,920</u>	<u>15,560</u>	<u>15,470</u>
Total Payroll Employment	<u><u>61,910</u></u>	<u><u>62,370</u></u>	<u><u>63,750</u></u>	<u><u>63,410</u></u>	<u><u>62,860</u></u>

⁽¹⁾ Data includes both full-time and part-time employees who worked during any part of the pay period, temporary alien workers and employees less than 16 years of age. Data are based upon the number of paychecks issued by employers. Dual and multiple jobholders are counted once for each job held. Proprietors, unpaid family workers, domestic servants and military active duty personnel are excluded.

⁽²⁾ Includes temporary contractual employees, autonomous agencies, Agency for Human Resources Development Disaster Recovery and senior/youth employment programs.

Source: *Current Employment Report, Department of Labor, Government of Guam*

Table B-3 shows the top 15 private employers by number of employees in Micronesia for 2017.

TABLE B-3
Top 15 Private Employers ⁽¹⁾
Calendar Year 2017

<u>Employer (and Type of Enterprise)</u>	<u>Number of Employees ⁽²⁾</u>
1. Imperial Pacific Intl. (CNMI) LLC (investments, casino resort)	1,560
2. Calvo Enterprises Inc. (insurance, various)	1,114
3. Black Construction Corp. (construction)	1,461
4. G4S Security Systems(integrated security company)	1,058
5. DZSP 21 LLC (military support services)	900
6. Triple J Enterprises Inc. (automotive, various)	884
7. Pacific Islands Club Guam (hotel)	742
8. Docomo Pacific (telecommunications)	650
9. Core Tech International Corp. (construction)	649
10. Bank of Guam (financial services)	638
11. Hilton Guam Resort & Spa (hotel)	520
12. GTA (telecommunications)	484
13. GFS Group (support services)	400
14. Pacific International Inc. (construction)	378
15. Pacific Islands Club Saipan (hotel)	362

⁽¹⁾ Companies selected by employee count from among top 30 by revenues, as compiled by the source.

⁽²⁾ Number of employees represents total number of employees in Micronesia.

Source: *Guam Business Magazine 2017 Top Companies*.

Unemployment

The Government reports employment and unemployment separately. Guam's unemployment was 5.8 percent as of September 2017, an increase of 0.4 and 1.3 percentage points respectively, from the comparable of September 2016 and 2015, but a reduction of 1.8 percentage points from the 7.6 percent rate in September 2014 and a decrease of 4.2 percent from the 10.0 percent rate in September 2013. The total number of persons reported as unemployed in September 2017 was 4,130, an increase of 220 from the September 2016 estimates.

Table B-4 lists unemployment statistics for September 2013 to September 2017. Differences in the employment figures in Table B-2 and Table B-4 arise as a result of differences in the surveys' coverage and exclusions. For example, the household survey in Table B-4 excludes civilians living within military installations or in military housing, and employees under the age of 16 years.

TABLE B-4
Unemployment Statistics ⁽¹⁾
September 2013 - September 2017

<u>As of ⁽²⁾</u>	<u>Total Labor Force</u>	<u>Number of Unemployed</u>	<u>Unemployment Rate (%)</u>
September 2013	71,430	7,160	10.0%
December 2013	70,490	5,940	8.4%
March 2014	72,070	5,350	7.4%
June 2014	70,530	6,380	9.0%
September 2014	71,060	5,390	7.6%
December 2014	74,870	5,760	7.7%
March 2015	70,420	4,840	6.9%
June 2015	70,790	6,120	8.6%
September 2015	69,800	3,130	4.5%
December 2015	73,210	3,550	4.8%
March 2016	69,400	2,800	4.0%
June 2016	71,420	2,770	3.9%
September 2016	71,960	3,910	5.4%
March 2017	72,510	3,150	4.3%
June 2017	73,900	3,330	4.5%
September 2017	71,600	4,130	5.8%

⁽¹⁾ Data include civilian non-institutional population 16 years of age and older, but exclude non-immigrant aliens and civilians living within military installations or in military housing. Individuals with one or more jobs or dual jobs are counted once.

⁽²⁾ Dates as of which data are provided reflect reported data available from the Guam Department of Labor, Bureau of Labor Statistics.

Source: Guam Department of Labor, Bureau of Labor Statistics.

Construction

Guam's construction industry is generally measured by the number and value of building permits. Building permits constitute an important economic indicator of the type and level of construction activities planned as well as corresponding employment increases once the buildings are completed.

Table B-5 lists the dollar value of the construction permits issued during the period from Fiscal Years 2013 through 2017. Values given include permits for new construction and additions.

TABLE B-5
Fiscal Year Building and Construction Permits
Fiscal Years 2013- 2017
(Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Residential	\$54,518	\$41,123	\$53,918	\$71,736	\$66,006
Commercial & Industrial	128,727	167,587	120,115	180,834	72,328
Government	81,061	162,221	45,967	145,564	278,119
Hotels	—	—	—	—	—
Condominiums	161	—	—	—	—
Apartments & Dormitories	30,160	—	—	—	—
Other ⁽¹⁾	13,927	35,241	6,013	36,143	20,380
Total	\$308,554	\$406,172	\$226,013	\$434,277	\$436,833

⁽¹⁾ Includes permit renewals, demolitions, relocations and church buildings.

Source: Bureau of Labor Statistics, Department of Labor.

Total construction activity in Guam has been averaging approximately \$362 million annually in the past five year.

In Fiscal Year 2015, approximately \$226 million of building and construction projects were in place based on the permits issued, representing a decrease of approximately 44% over Fiscal Year 2014, due to a sharp drop in government projects. Also in 2015, the Guam Regional Medical City, a nonprofit, tertiary level medical facility completed its phase one construction, becoming the first non-governmental facility of its type on the island. Guam Regional Medical City held its grand opening in July 2015 and provides the island with 125 beds at a total cost of approximately \$250 million. Although there was a delay in the planned relocation of U.S. Marines and military dependents from Okinawa and Iwakuni, Japan to Guam construction projects continued to increase since Fiscal Year 2013. Approximately 5,000 marines and 1,300 dependents from Okinawa, Japan and other locations are expected to be relocated to Guam by Fiscal Year 2026, with the first 2,500 marines moving to a new Marine Corps base to be built on existing federal land in Finegayan, Dededo (near Andersen Air Force Base) in Fiscal Year 2022. A Record of Decision, which identifies the final locations for additional bases and facilities to accommodate the Marines, was released on August 29, 2015.

During Fiscal Year 2016, approximately \$434 million of building and construction projects were permitted, almost doubling the amount from Fiscal Year 2015. This increase represents permits issued for a new hotel, the Tsubaki Tower, and an increase in government projects including the Guam International Airport Authority (the "Airport Authority") sterile corridor project. As for Fiscal Year 2017, a total of approximately \$437 million of building and construction projects have been permitted which reflects the largest growth of government construction projects, to include road projects and utility infrastructure capital projects.

Hotel and Residential Construction

In support of Guam's Tourism 2020 strategic plan, the Government has been marketing Guam to hotel developers. There are several new hotel and condo projects currently under construction. The Tsubaki Hotel, a 26-story, 340 room five-star hotel being constructed by P.H.R. Micronesia, Ken Corp. The Tsubaki Hotel, with an estimated cost of approximately \$164 million, is being built adjacent to the Hotel Nikko Guam in Tumon. The ground breaking was held in March 2016 with construction scheduled for completion in 2019. The Summer Towers, an approximately \$70 million four-tower development, is currently under construction and will house 260 luxury condominium units in Tamuning next to the Guam Memorial Hospital. Construction of the Summer Towers is scheduled for completion in late 2018. Blue Ocean Investments is planning to build an approximately \$70 million 300-room hotel adjacent to Tumon Sands Plaza, expected to be completed in 2020. Bridge Capital LLC is planning to develop an approximately \$421 million two-tower commercial facility with a total of 590 rooms at the site of the Guam Greyhound Raceway Park in Tamuning. Two other hotel construction projects in Tumon are expected to begin in 2020 include the Citta di Mare, an approximately \$133 million four-tower hotel expected to have a total of 500 rooms located behind the Acanta Mall in Tumon, and the Yacht Ville Hotel, an approximately \$110 million 106-room hotel which is expected to break ground in 2020.

Summer Town Estates Phase III will have 66 units located at the old Lada Estates. This is a low-income housing tax credit financed project approved by Guam Housing and Urban Renewal Authority. Villa Del Mar LLC is also planning on 50-unit housing off the Kanada-Toto Loop for low-income families as well as homeless veterans on Guam. The project is to be funded by a federal tax credit program. These two housing projects are estimated to have a combined cost of approximately \$50 million. Another ongoing project is the Wonderful Windward Hills Resorts, an approximately \$107 million investment for 488 single dwelling homes with an expected completion date of August 2019, since it broke ground in July 2017. Tracts of private, affordable housing, upscale gated communities and million-dollar ocean-vista homes are under construction. Housing developments completed include Talo Verde Estates in Upper Tumon, Villa Pacita in Yigo, and Quintas del Mar in Yigo. Housing development still under construction includes Pago Bay Resort in Yona. In February 2018, a proposal for Dos Amantes Residences, which are six, 7-story condominium buildings in Dededo, received approval from the Hybrid Land Use Commission, however no date of project commencement had been announced. Dos Amantes Residences will have a total of 420 residential units, with each building having 70 units. This development will be adjacent to Two Lovers Point, a popular tourist destination. Jupiter Juno Inc. also received the approval from the Guam Land Use Commission in February 2018 for its application to build a subdivision of 31 single-family residential lots. Pursuant to Executive Order No. 2012-09, the Government launched an incentive program, providing incentives and assistance to developers and contractors to meet the Governor's goal to build 3,000 more affordable homes on Guam over a five-year period. As of April 2018, approximately 2,500 affordable homes have been built.

Commercial, Retail and Office Space Construction

A new Medical Arts Center, with an estimated cost of approximately \$25 million, broke ground for the first phase of the project in April 2017. The 50,000 square foot, three-story commercial building will be located across from the Guam Regional Medical City and will house medical offices, hospice care, senior care facilities, a hemodialysis center, a pharmacy, diagnostic and therapeutic services, and others. Plans for additional phases of the project include other health and wellness-related stores and services such as health food markets. Completed in the summer of 2017, the \$6.1 million Camacho Landmark Center on Marine Corps Drive in Tamuning is advertising for tenants for its 21,000 square-foot two-story building, which is designed for retail businesses, corporate and professional offices, and health care clinics. In June 2017, Matson completed a new \$9 million building located in Hagåtña along Marine Corps Drive that will serve as Matson's new headquarters on Guam. The Fishermen's Co-Op project, estimated to cost approximately \$6 million, will include a 220-foot sea wall as docking area for larger vessels such as fishing, charter and dolphin watching vessels.

The Micronesia Mall underwent an approximately \$1.3 million renovation and provides more than 27,000 square feet of retail space for Ross Stores Inc.'s newest storefront and which opened in March 2017 provided jobs for approximately 200 employees. In addition, construction of 45,000 square feet of new retail space for a Macy's department stores was completed in 2016. It will also include 6,000 – 7,000 square feet for the operational facility.

Finally, Phase I of the Tumon Bay Mall, a 200,000 square-foot, two-story building has been completed; Phase II will initiate in 2018 with completion scheduled in 2019.

Construction of a new commercial building which houses Guam's new Applebee's franchise was completed in July 2014. The facility was constructed by the same developers that own Guam's first IHOP restaurant, which opened in July 2015, and Pieology Pizzeria, which opened in May 2016. In May 2017, Pieology Pizzeria opened its second location in the northern part of Guam. A groundbreaking ceremony was held in May 2017 for the construction of a new 4,382 square foot McDonald's restaurant in Yigo, anticipated to be completed in 2018. In September 2017, Jollibee Foods Corp., a Manila-based fast food company, announced it plans to reopen a restaurant in Guam currently scheduled for the first quarter of 2019 expected to be located in the northern part of the island. Two other popular dining franchises are expected to open in Guam in 2018. Triple J Restaurant Group will open a Red Lobster franchise at the Tumon Sands Plaza before the end of 2018. In addition, Apple Pacific expects to open an Olive Garden franchise during the latter part of summer 2018 located at the Tumon Sands Plaza.

Government Construction Projects

Ongoing or recently completed Government construction projects include approximately \$167 million of new capital improvements, additions and extension to the Airport.

In December 2016, the University of Guam closed on an approximately \$21.7 million USDA Community Facilities Direct Loan to finance the construction of a new Student Services Center and Engineering School Annex. In a dedication ceremony held on March 19, 2018 for the School of Engineering facility, it was announced that the engineering facility estimated to cost \$5 million will open in July 2019. The Guam Community College ("GCC") also closed on an approximately \$6 million USDA Community Facilities Direct Loan to finance the construction, expansion and/or hardening of the GCC Gregorio G. Perez Crime Lab and GCC Building #100 in December 2016. The Guam Department of Education's plan for the reconstruction of another high school in Yigo is expected to be completed in 2019.

In 2016, the Guam Waterworks Authority ("GWA") issued revenue bonds to fund \$143 million of capital improvements to GWA's water and wastewater system that include water production, treatment, distribution and storage, wastewater collection and treatment. In August 2016, the DoD, through the OEA, awarded approximately \$55.3 million to GWA to assist with upgrades and expansions to their water and wastewater facilities related to the upcoming construction of a Marine Corp's base in the northern part of the island. In November 2017, the DoD awarded GWA an additional \$117.9 million to assist with upgrades and expansions to their wastewater facilities related to upgrades to the Northern District Wastewater Treatment Plant.

The \$7.0 million reconstruction and rehabilitation of the Old Guam Congress Building, the home of the Guam Legislature, was completed in 2016 and the \$23 million Guam Museum Project was completed and opened in May 2016.

The Department of Public Works ("DPW") awarded a \$44 million contract to widen Route 3 between Route 28 and Chalan Kareta. Work will entail reconstructing and widening Route 3 from the current two-lane bidirectional roadway to a widened four-lane highway (two lanes in each direction plus a median lane). A groundbreaking ceremony was held on March 22, 2018 and is expected to be completed by January 2020.

The Impact of H-2B Visa Denials on Guam

The H-2B program in Guam has allowed employers to bring skilled foreign workers into the U.S. to fill temporary jobs in sectors other than agriculture. Employers of all sizes, primarily in construction, but also in a variety of other industries use the H-2B program when they cannot identify enough skilled U.S. workers to hire.

However, the denial of nearly all H-2B visas by the U.S. Citizenship and Immigration Service ("USCIS") in Fiscal Years 2016 and 2017, resulted in a labor shortage and an economic downturn for Guam.

In October 2016, 11 Guam-based companies and the Guam Contractors Association initiated a class-action lawsuit against USCIS and other federal agencies, alleging that, starting in 2016, USCIS began rejecting their H-2B visa petitions for work during exceptionally busy periods at a rate approaching 99% compared to a prior Guam average approval rate of approximately 95% through 2015. In January 2018, the U.S. District Court of Guam preliminarily enjoined USCIS from relying on the failure to satisfy peak-load or one-time occurrence conditions as grounds for denying H-2B visa petitions and ordered USCIS to reconsider H-2B visa petitions that were previously denied (the “**2018 Preliminary Injunction Order**”). In April 2018, the U.S. District Court of Guam certified a class of businesses in Guam, thereby permitting Guam employers who believe they have had unlawful denials of H-2B visa petitions by USCIS to seek temporary relief under the 2018 Preliminary Injunction Order. According to the Guam Department of Labor Alien Labor Processing and Certification Division, between the date of the 2018 Preliminary Injunction Order and April 20, 2018, approximately 1,601 H-2B visa petitions have been filed. Of such amount, 654 H-2B visa petitions for military related projects were filed by two Guam-based companies and received approval by USCIS in March 2018. The remaining 947 H-2B visa petitions are currently undergoing the application process with USCIS. Between the date of the 2018 Preliminary Injunction Order and April 20, 2018, no H-2B visa petition has been denied by the USCIS.

In December 2017, the 2018 National Defense Authorization Act (“**NDAA**”) was signed into law authorizing \$354.6 million in new military construction projects for Guam. It included a provision that allows for no more than 4,000 H-2B visa workers for Guam and the Commonwealth of the Northern Marianas combined for each fiscal year, provided that the projects are related to the military build-up. The projected need for imported labor is expected to peak at 6,600 workers by Fiscal Year 2022. The 2018 NDAA also extends Guam’s exemption from the national H-2B visa cap through 2023. However, it does not address the shortage outside of the military projects, including the school and hospital projects that have been on hold due to the H-2B workers shortage. The Governor of Guam has since issued a request for proposal soliciting firms or organizations that can provide multiple lobbying and consulting services to communicate Guam’s messages in Congress as it relates to the H-2B visa issue and other matters.

Other Economic Activity

The Government is seeking through legislative and regulatory efforts to streamline business and construction permitting processes, to obtain an exemption from the Jones Act, a federal law that governs domestic shipping, which would expand the market for shipments to Guam and reduce the cost of imports, to develop the captive insurance market for the Asian market, and to continue the pursuit of the visa waiver program for Chinese tourists.

Other developments being pursued by the Government, private enterprise or both, include a bonded warehouse on Guam as a consolidation and customs clearance center, a hub for the collection and transshipment of recyclable materials in the region, a redevelopment of the *Hagåtña* area, light domestic manufacturing of construction materials, expanded eco and sports tourism, and television and commercial film production for Asian producers.

Guam Tourist Industry

Tourism has represented a primary source of income for Guam’s economy for over 25 years. Visitor arrivals rose to over 1,000,000 travelers for the first time in 1994 and have remained near or above that level ever since.

Table B-6 sets forth the annual number of visitors to Guam for Fiscal Years 2013 through 2017. The number of annual visitors to Guam increased from 1,337,665 in Fiscal Year 2013 to 1,559,395 in Fiscal Year 2017. Visitor arrivals for Fiscal Year 2017 increased by 3.2% over Fiscal Year 2016 which placed the most recent Fiscal Year at the top of Guam’s charts for visitor arrivals. Fiscal Year 2017 set a new all-time record for visitor arrivals to Guam, exceeding the prior record for visitor arrivals set in Fiscal Year 2016.

TABLE B-6
Annual Visitor Arrivals to Guam
Fiscal Years 2013-2017

<u>Fiscal Year</u>	<u>Visitor Arrivals</u>
2017	1,559,395
2016	1,511,065
2015	1,372,531
2014	1,341,171
2013	1,337,665

Source: Guam Visitors Bureau.

Table B-7 provides a comparison of cumulative visitor arrivals by month to Guam for calendar years 2013 through 2017. The global decline in Japanese travel has resulted in fewer Japanese tourists on Guam over the last several years. The decrease in Japanese tourists visiting Guam has not been unique to Guam and according to JTB Tourism Research and Consulting, total Japan resident visits abroad declined by more than 8% from 2012 to 2016. This decline is attributed to several factors including the weak Japanese yen and an increase in consumption taxes. Arrivals from Japan to Guam have decreased since 2013, which is consistent with the total Japanese outbound visitor market.

However, arrivals from South Korea, Taiwan and China have increased, offsetting the decline in Japan arrivals. Several factors account for the increase from these markets, such as the expanded number of airline flight routes to Guam, the favorable exchange rate for Asian visitors, preparations for the military expansion, and the relative improvement of the overall global economy.

TABLE B-7
Cumulative Visitor Arrivals to Guam by Month
2013- March 2018

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018⁽¹⁾</u>
January	116,558	117,076	118,501	129,259	136,029	134,117
February	238,630	234,108	244,581	271,591	269,469	126,616
March	375,358	365,361	376,915	404,926	410,131	135,746
April	466,857	464,184	473,156	510,372	532,753	--
May	553,027	554,835	570,029	624,725	651,606	--
June	652,177	657,628	671,076	743,098	774,355	--
July	763,484	767,380	786,167	866,094	907,307	--
August	897,839	900,617	921,665	1,010,852	1,051,327	--
September	1,006,474	1,013,148	1,042,587	1,144,602	1,168,479	--
October	1,108,429	1,117,109	1,154,879	1,267,136	1,282,005	--
November	1,215,909	1,223,239	1,276,631	1,392,884	1,404,382	--
December	1,334,497	1,343,092	1,409,050	1,535,518	1,543,990	--

⁽¹⁾ Preliminary Data as of March 2018

Source: Guam Visitors Bureau

Guam Visitors Bureau

The Guam Visitors Bureau (“GVB”) is a nonprofit membership corporation that has existed in its current form since 1984. Their mission is to efficiently and effectively promote Guam as a safe and satisfying destination for visitors and to derive maximum benefits for the people of Guam. Policy for GVB is set by a twelve-member board of directors, consisting of five directors appointed by the Governor with the advice and consent of the Guam Legislature, two directors appointed by the Speaker of the Guam Legislature, four directors elected by the members, and one director selected by at least a two-thirds vote of the other eleven directors. A board-appointed President and CEO administers the activities of GVB. Membership in GVB is not restricted to any particular group. Funding for GVB’s operations is appropriated by the Guam Legislature from amounts available in the Tourist Attraction Fund.

GVB’s is actively promoting on tourism in Guam, include a Guam branding initiative; efforts to expand visitor markets through expansion of the visa waiver program and similar initiatives; encouraging longer stays and repeat visits by enhancing and promoting tourist and cultural destinations and events on the island; and working with travel agents to market group-travel initiatives.

Most recently, GVB launched “#Instaguam”, which is the theme for the new Visit Guam 2018 campaign in an effort to continue promoting the island in all of its visitor markets. #Instaguam is an idea that came from showcasing Guam as an instant destination from major Asian cities and the use of Social Networking Sites to promote the experience.

Key Visitor Markets

Guam receives visitors from a variety of countries and GVB aims to further diversify Guam’s visitor base. Guam’s top four visitor markets include Japan, South Korea, U.S./Hawaii and Taiwan. Fiscal Year 2017 was unique in that, for the first time in history, visitors to Guam from Japan and South Korea were nearly the same with 674,343 visitors from Japan (43% of visitors to Guam) and 649,435 visitors from South Korea (42% of visitors to Guam). Guam’s next largest tourist markets in Fiscal Year 2017 were the U.S./Hawaii (5%), Taiwan (2.3%), China (1.5%) and Philippines (1.3%). Total civilian air arrivals increased by 3.5%, while total sea arrivals, which account for less than 1% of Guam’s visitor arrivals, decreased by 22.6% during Fiscal Year 2017 over the previous Fiscal Year 2016. Based on data from GVB, the total number of visitors to Guam for Fiscal Year 2016 was 1,511,065 compared to 1,372,531 for Fiscal Year 2015, representing an increase of approximately 10.1%. Of these visitors, 49.82% were from Japan, 34.38% from South Korea, 5.08% from the U.S., 2.75% from Taiwan and 1.74% from China, with the remaining 6.00% coming from other countries. The Russian visitor market, once a potential growth market, was greatly impacted by the falling oil price and the subsequent weakening of Russia’s currency, and in Fiscal Year 2016 accounted for only 0.16% of visitors to Guam.

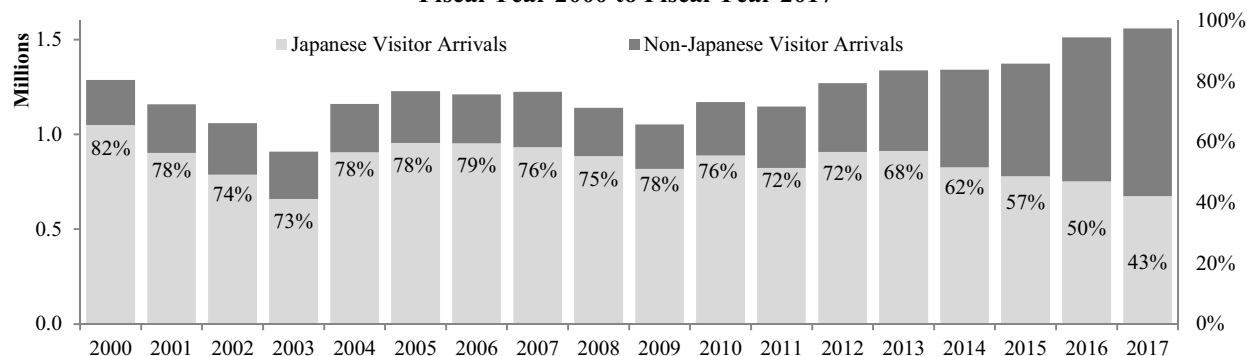
GVB continues to market to the South Korea, Taiwan, Hong Kong and China markets to further diversify and expand Guam’s visitor base. From Fiscal Year 2016 to Fiscal Year 2017, visitor arrivals from South Korea grew 25% while Japan and Taiwan decreased about 10.4% and 12.7%, respectively. Based on data compiled by GVB, as of September 2017, visitors from South Korea stayed an average of 3.68 nights compared to visitors from Japan who stayed an average of 3.24 nights, and to visitors from China who stayed an average of 4.233 nights.

The incentive group and school segments meetings shows Fiscal Year 2016 having a total of 3,082 visitors, a trend that fits with one of Guam’s Tourism 2020 core objectives. The “Tourism 2020” plan is the islands strategic plan to help Guam move toward its potential as a first-tier, diversified resort destination of choice. It contains specific and measurable tasks with core objectives that are needed for Guam as a destination to thrive in a competitive global environment.

One area of focus in recent fiscal years has been to stimulate consumer demand from Japan, to slow the negative arrivals trend and to recover market share. Guam’s share of Japan’s visitor market is expected to diminish further due to a consumption tax that has reduced disposable income and the continued devaluation of the Japanese yen. GVB initiatives include the Premium Guam advertising campaign, the Travel Agent Incentive Program, an aggressive public relations strategy, support for travel agent brochures and groups, and marketing co-ops. Attracting new flight service from Japan will also be an objective, especially from the Haneda (Tokyo) Airport. Lastly,

reaching higher yield segments of the market, such as weddings and seniors, with targeted promotions is also planned.

Figure 1
Historical Fiscal Year Japanese Visitor Arrivals as a Percentage of Total Visitor Arrivals
Fiscal Year 2000 to Fiscal Year 2017



Source: Guam Visitor's Bureau

Fiscal Year 2017 visitor arrivals from South Korea totaled 649,435, an increase of 25% compared to Fiscal Year 2016. Arrivals from South Korea continue to grow with much of the increase attributed to additional flight service from South Korea. Since Fiscal Year 2015, Guam has seen significant increase in service between Guam and South Korea. In 2015, Jin Air upgraded its equipment from a Boeing 737 (185 seats) to a Boeing 777 (355 seats), Jeju Air began service from Busan to Guam, T'Way Air began daily flight services from Incheon to Guam and in July 2015, Air Busan began four times weekly service from Busan making it the fifth airline to provide regular service between Guam and South Korea. In September 2017, Air Seoul, a low-cost carrier based in South Korea, arrived on Guam with its inaugural flight.

The China market continues to represent the greatest opportunity for growth in Guam tourism. Although a visa waiver has not been granted for Chinese tourists to travel to Guam, the U.S. and China have agreed to extend visa validity from a one-year, single-use visa to a ten-year, multi-use visa. This greatly reduces time and cost required for a U.S. visa and removes one of the roadblocks to attracting Chinese tourists to Guam. China Airlines is the only carrier with direct service to Guam from Taipei with five weekly flights, which began on March 25, 2018. While China Airlines increased flight service to Taipei is only scheduled through October 25, 2018, GVB is working on sustaining the demand for additional seats in order for China Airlines to maintain the additional flight service to Guam.

Since 2012, Philippine visitor arrivals have grown more than 190%. In March 2016, Cebu Pacific Air began its four times weekly services between Manila and Guam. In Fiscal Year 2017, arrivals from the Philippines increased by 6% compared to Fiscal Year 2016. This was an increase of Philippine visitors in Fiscal Year 2016 of approximately 52.3% with 18,704 visitors compared to 12,278 visitors in Fiscal Year 2015.

Recent Events in Guam's Visitor Market

Following global political events in August 2017 Guam experienced an increased number of visitor cancelations from Japan. Despite the decrease in planned Japanese arrivals to Guam, visitors from South Korea largely filled the hotel capacity resulting from Japanese visitor cancelations during the last several months of calendar year 2017. In order to proactively address the recent volatility in Guam's visitor market, in September 2017, Governor Calvo created a task force with the GVB, the Airport and Guam Economic Development Authority ("GEDA") to continue its efforts to reassure investors and neighboring countries that Guam remains a safe destination to live, visit and invest. In 2017, the task force led by Governor Calvo visited Japan, South Korea and Taiwan.

As a result of the increased visitors from South Korea, visitor arrivals were up by approximately 0.6% in calendar year 2017. Calendar Year 2017 was the best calendar year in Guam's tourism history with record arrivals totaling 1,543,990. A major contributor to the record-breaking visitor arrivals was a 26% increase in the number of visitors from South Korea which totaled 684,443 in calendar year 2017.

GVB continues to work on reviving the Japanese market while strengthening the South Korean market in order to improve Guam's tourism industry in 2018. As for the Japan market, GVB continues to work with industry partners to increase arrivals and regain most of their tourism market share. Upcoming events that are part of this marketing campaign include the United Airlines Guam Marathon and the AKB48 Guam fan tour that took place in April 2018.

Recently, several airlines have announced additional flight service, which will help fill the void left by Delta cancelling flights to Guam, and United Airlines' reduction of seats between Guam and Japan. Japan Airlines launched a second daily flight between Guam and Narita, which began in March 2018 and will continue until October 2018. GVB expects the route will receive good performance during the initial 7-month schedule and plans to work with the airline for a possibility of extension. Jeju Air will begin flight services between Japan's Kansai International Airport and Guam on July 21, 2018. This new service will add 5,700 direct flight seats per month.

January 2018 experienced visitor arrivals of 134,117, which is slightly below January 2017 arrivals of 136,029 but still the second best January in Guam's history. A significant increase in sea arrivals from the Armed Forces is attributable to the arrival of USS Carl Vinson, USS Michael Murphy, USNS Wally Schirra, USNS 1st Lt. Jack Lummus, and USNS VADM K.R. Wheeler, bringing in nearly 5,000 military personnel to the island. January 2018 visitor arrivals from South Korea were up 22% over the same period from the prior year, and visitors from South Korea continue to offset the decrease in other markets such as Japan. January 2018 arrivals from the continental U.S. and Hawaii, along with Russia, also reflected increases from the prior year.

Preliminary figures from February 2018 reflect the third best February in Guam's history with 126,616 visitor arrivals, however, February 2018 visitor arrivals were down slightly from February 2017. Although the total decrease of 5.1% in February arrivals is mainly attributed to the decrease in military arrivals and civilian sea arrivals, visitor arrivals from South Korea continued to strengthen with an 18.7% increase over the same period from the prior year. Arrivals from China increased by 64.7% in February 2018, primarily due to the celebration of the Chinese Lunar New Year. Other markets that showed growth in February 2018 include Russia, Republic of Palau, and the U.S. Mainland. February 2018 civilian arrivals increased by 1.5% compared to the same period from the prior year.

Visitor arrivals in March 2018 were down approximately 3.5% compared to March 2017 largely due to a drop in Japanese visitors; however, visitor arrivals from South Korea increased 2.3% in March 2018 versus the prior year. March 2018 brought in Guam's first Chinese incentive group for 2018 from Shanghai Jinjiang Travel. Jin Jiang Int'l. (Holdings), the mother company of Shanghai Jinjiang Travel, is among the largest comprehensive tourism enterprises in China. The delegation is comprised of 109 individuals who is the first group to benefit from the Meetings, Incentives, Conventions, and Exhibitions (MICE) Visa Free Program launched in December 2017. The program is exclusively for Chinese MICE group of 50 people or more. This program is launched to address the hurdle of growing the China market brought on by the needs for a U.S. Visa to enter Guam, and also to encourage companies to consider Guam as a destination for their meetings.

A preliminary figure for April 2018 continues to make record with 117, 689 visitors being welcome to the island. South Korea arrivals grew by 12.6% when compared to the same period last year. Other markets that additionally demonstrated growth and diversification in the month of April include The Russia Federation by 35.8%, Europe by 32.9%, Palau by 27.7% and U.S. and Hawaii by 13.8%. April is traditionally known as one of the slowest month of the year, however, GVB strategically plans events in the in the slower months of the year to attract more visitors. Events like the United Guam Marathon, Smokin' Wheels Weekend, Marianas Open and the AKB48 Fan Tour helped the overall visitor arrivals in April, which is considered the start of the visitor industry's off-season.

Cruise Industry

While the cruise industry has historically been a modest visitor market for Guam, in January 2018, the Governor signed Public Law 34-75 which directs the Guam Visitor's Bureau to develop and publish a Request for Information for the purpose of soliciting and determining public interest in expanding the cruise ship industry on Guam and the Micronesia region. In May 2018, the Guam Visitor's Bureau released a Request for Information pursuant to Public Law 34-75. In addition, on May 15, 2018, Carnival Cruise Line announced that it would expand its current service to include a 24-day trans-Pacific crossing which will include a port call in Guam.

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Table B-8 sets forth a comparison of visitor arrivals to Guam by country for Fiscal Years 2013 through 2017.

TABLE B-8
Fiscal Year Visitor Arrivals by Country
Fiscal Years 2013-2017

	2013		2014		2015		2016		2017	
	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total
Japan	912,093	68.19%	825,830	61.58%	779,405	56.79%	752,757	49.82%	674,343	43.24%
South Korea	232,850	17.41%	293,437	21.88%	384,112	27.99%	519,430	34.38%	649,435	41.65%
U.S. Mainland/Hawaii	58,546	4.38%	66,151	4.93%	69,745	5.08%	76,727	5.08%	76,296	4.89%
Taiwan	47,904	3.58%	50,924	3.80%	42,315	3.08%	41,534	2.75%	36,270	2.33%
China, P.R.C.	10,384	0.78%	14,547	1.08%	23,589	1.72%	26,271	1.74%	23,178	1.49%
CNMI	15,905	1.19%	15,466	1.15%	13,757	1.00%	17,390	1.15%	18,494	1.19%
Micronesia ⁽¹⁾	13,976	1.04%	13,019	0.97%	13,753	1.00%	17,201	1.14%	16,237	1.04%
Philippines	10,564	0.79%	11,742	0.88%	12,278	0.89%	18,704	1.24%	19,818	1.27%
Australia	3,265	0.24%	3,830	0.29%	2,987	0.22%	2,258	0.15%	2,227	0.14%
Canada	961	0.07%	1,031	0.08%	960	0.07%	952	0.06%	991	0.06%
Europe	2,101	0.16%	1,876	0.14%	1,686	0.12%	2,010	0.13%	2,026	0.13%
Hong Kong	8,936	0.67%	8,605	0.64%	8,163	0.59%	8,397	0.56%	16,053	1.03%
Thailand	382	0.03%	400	0.03%	459	0.03%	463	0.03%	445	0.03%
Vietnam	92	0.01%	100	0.01%	166	0.01%	183	0.01%	128	0.01%
Russia	6,134	0.46%	18,291	1.36%	3,539	0.26%	2,488	0.16%	3,151	0.20%
Others/Unknown	6,394	0.48%	6,708	0.50%	4,174	0.30%	5,484	0.36%	5,735	0.37%
Total Air⁽²⁾	1,330,487	99.5%	1,331,957	99.3%	1,361,088	99.2%	1,492,249	98.8%	1,544,827	99.1%
Total Sea⁽³⁾	7,178	0.54%	9,214	0.69%	11,443	0.83%	18,816	1.25%	14,568	0.93%
Total Air & Sea	1,337,665	100.0%	1,341,171	100.0%	1,372,531	100.0%	1,511,065	100.0%	1,559,395	100.0%

⁽¹⁾ Includes Palau, Federal States of Micronesia (“FSM”) and the Republic of the Marshall Islands (“RMI”).

⁽²⁾ Includes military air arrivals.

⁽³⁾ For Fiscal Year 2012, military vessel arrivals were not available.

Source: Guam Visitors Bureau.

Table B-9 highlights the percentage change in annual visitor arrivals to Guam by country for Fiscal Years 2013 through 2018.

TABLE B-9
Percentage Change in Annual Visitor Arrivals by Country
Fiscal Years 2013-2018

			% Change from		% Change from		% Change from		% Change from	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2017</u>	<u>2016</u>	<u>2018⁽⁴⁾</u>
Japan	912,093	825,830	-9.50%	779,405	-5.60%	752,757	-3.40%	674,343	-10.40%	276,784
South Korea	232,850	293,437	26.00%	384,112	30.90%	519,430	35.20%	649,435	25.00%	369,049
U.S. Mainland/Hawaii	58,546	66,151	13.00%	69,745	5.40%	76,727	10.00%	76,296	-0.60%	41,035
Taiwan	47,904	50,924	6.30%	42,315	-16.90%	41,534	-1.80%	36,270	-12.70%	13,330
China, P.R.C.	10,384	14,547	40.10%	23,589	62.20%	26,271	11.40%	23,178	-11.80%	10,328
CNMI	15,905	15,466	-2.80%	13,757	-11.10%	17,390	26.40%	18,494	6.30%	9,489
Micronesia ⁽¹⁾	13,976	13,019	-6.80%	13,753	5.60%	17,201	25.10%	16,237	-5.60%	9,159
Philippines	10,564	11,742	11.20%	12,278	4.60%	18,704	52.30%	19,818	6.00%	10,161
Australia	3,265	3,830	17.30%	2,987	-22.00%	2,258	-24.40%	2,227	-1.40%	1,263
Canada	961	1,031	7.30%	960	-6.90%	952	-0.80%	991	4.10%	124
Europe	2,101	1,876	-10.70%	1,686	-10.10%	2,010	19.20%	2,026	0.80%	1,204
Hong Kong	8,936	8,605	-3.70%	8,163	-5.10%	8,397	2.90%	16,053	91.20%	3,436
Thailand	382	400	4.70%	459	14.80%	463	0.90%	445	-3.90%	69
Vietnam	92	100	8.70%	166	66.00%	183	10.20%	128	-30.10%	9
Russia	6,134	18,291	198.20%	3,539	-80.70%	2,488	-29.70%	3,151	26.60%	2,585
Others/Unknown	6,394	6,708	4.90%	4,174	-37.80%	5,484	31.40%	5,735	4.60%	6,652
Total Air⁽²⁾	<u>1,330,487</u>	<u>1,331,957</u>	<u>0.10%</u>	<u>1,361,088</u>	<u>2.20%</u>	<u>1,492,249</u>	<u>9.60%</u>	<u>1,544,827</u>	<u>3.50%</u>	<u>754,677</u>
Total Sea⁽³⁾	<u>7,178</u>	<u>9,214</u>	<u>28.40%</u>	<u>11,443</u>	<u>24.20%</u>	<u>18,816</u>	<u>64.40%</u>	<u>14,568</u>	<u>-22.60%</u>	<u>17,313</u>
Total Air & Sea	1,337,665	1,341,171	0.30%	1,372,531	2.30%	1,511,065	10.10%	1,559,395	3.20%	771,990

⁽¹⁾ Includes Palau, FSM and RMI.

⁽²⁾ Includes military air arrivals.

⁽³⁾ For Fiscal Years 2013 through 2014, military vessel arrivals were not available.

⁽⁴⁾ As of March 2018

Source: Guam Visitors Bureau.

Hotels

Tumon Bay, located on Guam's west coast, is the heart of Guam's tourist industry. The hotels in Tumon Bay provide lodging to the majority of visitors to Guam. During the 1990s and early 2000s, Guam's inventory of hotel rooms increased over 100%, with substantial growth in the number of hotel rooms occurring from 1991 to 1993 and from 1995 to 2001. As of April 2018, there were 34 hotels in Guam, including many notable international hotel operators, with an inventory of approximately 9,244 rooms.

Table B-10 lists the weighted annual hotel occupancy and room rates from Fiscal Years 2013 through March 2018.

TABLE B-10
Weighted Hotel Occupancy and Average Room Rates
Fiscal Year 2013-2018

Year	Annual Weighted Hotel Occupancy Rate	Weighted Average Room Rate
2013	82%	\$162
2014	83%	\$177
2015	78%	\$186
2016	80%	\$197
2017	85%	\$203
2018 ⁽¹⁾	85%	\$210

⁽¹⁾ As of March 2018

Source: Guam Visitor's Bureau

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Table B-11 lists the top 15 hotel operators by number of existing rooms as of April 2018.

TABLE B-11
Top Fifteen Hotel Operations in Guam
As of April 2018

<u>Hotel/Resort</u>	<u>Year Opened</u>	<u>Location</u>	<u>Number of Rooms⁽¹⁾</u>
Pacific Islands Club	1980	Tumon	777
Hilton Guam Resort & Spa	1972	Tumon	694
Outrigger Guam Resort	1999	Tumon	600
Guam Plaza Hotel	1983	Tumon	505
Hotel Nikko Guam	1992	Tumon	460
Hyatt Regency Guam	1994	Tumon	450
Leo Palace Resort Guam	1993	Yona	450
Westin Resort Guam	1996	Tumon	432
Onward Beach Resort	1992	Tamuning	430
Guam Reef & Olive Spa Resort	1974	Tumon	420
Dusit Thani Guam	2015	Tumon	419
Pacific Star Resort & Spa ⁽²⁾	1987	Tumon	388
Sheraton Laguna Guam Resort	2007	Tamuning	318
Fiesta Resort Guam	2006	Tumon	314
Holiday Resort & Spa Guam	1996	Tumon	252
Total			6,909

⁽¹⁾ Numbers may not reflect actual capacity as hotel management may make rooms unavailable at any given time.

⁽²⁾ Formerly the Guam Marriott Hotel.

Source: Guam Visitors Bureau.

Pursuant to Section 30101(b), Title 11, Guam Code Annotated, the Hotel Occupancy Tax is an excise tax levied and imposed by the Government against transient occupants of a room or rooms in a hotel, lodging house or similar facility located in Guam. The Hotel Occupancy Tax has been levied at the rate of 11% of the rental price charged or paid per occupancy per day since April 1, 1995. Table B-12 below shows the amount of Hotel Occupancy Tax Revenues collected for Fiscal Years 2013 through 2017.

TABLE B-12
Annual Hotel Occupancy Tax Revenues
Fiscal Years 2013 – 2017

<u>Fiscal Year</u>	<u>Taxes Collected</u>
2013	\$29,331,058
2014	34,362,256
2015	36,568,032
2016	40,864,063
2017	44,007,074

Sources: Tourist Attraction Fund Audited Financial Statements for Fiscal Years 2013-2017).

Over the past few years, several existing hotels have undertaken significant renovations totaling approximately \$100 million including improvements at the Hilton Guam Resort and Spa, Pacific Islands Club, Pacific Star Resort & Spa (formerly the Guam Marriott Resort), Hotel Nikko Guam, Royal Orchid Guam, Sheraton Laguna Guam Resort, Hyatt Regency Guam and Westin Resort Guam. The Pacific Star Resort & Spa completed approximately \$25 million of renovations in 2014, with the resort now operating as the Pacific Star Resort & Spa. Leo Palace Resort has completed approximately \$2.4 million of hotel renovation projects. The Royal Orchid Hotel has indicated its plans to convert 200 rooms to 98 residential condo units. The Guam Reef Hotel & Olive Spa has completed the first phase of approximately \$12 million of renovations that started in October 2012. The Sherwood Hotel was sold in September 2011 and re-opened in 2012 as the new Verona Resort and Spa with 254 rooms. In addition, Lotte Hotels and Resorts (“**Lotte Hotels**”) completed an approximately \$20 million renovation and rebranding of the Guam Aurora Resort Villa & Spa, which encompassed 222 rooms, four restaurants, three banquet halls, an outdoor swimming pool, a spa and a chapel. The Lotte Hotels renovated and rebranded such hotel and re-opened in July 2014. For the first time in nearly 20 years, Guam welcomed its first newly built hotel with property developer Tanota Partners opening an approximately \$250 million, 419-room hotel tower, the Dusit Thani Guam, in July 2015. The Dusit Thani includes a ballroom with a 2,000 person seating capacity and stands between the Outrigger Guam Resort, the Hyatt Regency Guam and a commercial center filled with retail shops and restaurants in Tumon. The owners of the Ladera Towers have recently completed an approximately \$134 million renovation of their condominiums with a plan of transformation into a condo-hotel.

Airlines

Guam has an international airport, the Antonio B. Won Pat Guam International Airport (the “**Airport**”), operated by the Airport Authority, a public corporation and autonomous instrumentality of the Government. The Airport is centrally located in Guam’s business district on a 1,800 acre parcel of land and has 768,000 square feet of terminal space along with hangars, maintenance facilities, warehouse space, storage facilities, office space and expansive ground space.

The Airport is the only commercial air carrier airport serving Guam and is the principal air carrier airport serving the surrounding Micronesian islands. According to the Federal Aviation Administration (the “**FAA**”), approximately 1,774,590 enplaned passengers were processed through the Airport for Fiscal Year 2016, making the Airport the 75th busiest primary airport within the FAA system. According to data published by the U.S. Department of Commerce Office of Travel and Tourism Industries, for calendar year 2015 (based on data released June 2016), the Airport was the 10th busiest port of entry to the U.S. for Overseas Visitors (excluding arrivals from Canada and Mexico), and for calendar year 2016, the Airport was the 8th busiest port of entry to the U.S. for non-U.S. resident arrivals (excluding arrivals from Canada and Mexico). The Airport’s passenger base is over 90% international from all originating markets, which it serves.

Twelve passenger airlines currently provide service at the Airport, and four air cargo service providers. In addition, the Airport is served by other charter flights, including military charter flights, and those operated by various airline carriers. As of April 2017, the signatory airlines at the Airport provided service to 35 destinations in Asia and the U.S.

Airline service at the Airport is still provided principally by major flag carriers such as United Airlines, China Airlines, Japan Airlines, Korean Airlines and Philippine Airlines, however, low-cost carriers, including Jin Air, Jeju Air, Air Busan, T’Way Airlines and Cebu Pacific Airlines have introduced service at the Airport. Commuter air services to the CNMI are provided by Star Marianas Air, and Arctic Circle. Air Cargo service providers include Asia Pacific Airlines, Federal Express, United Parcel Service and Szabo.

A number of service changes have occurred at or been announced for the Airport in the last several years. Air service development remains a priority. Diversification is a key objective and the largest and essentially untapped visitor base is the Chinese market. Regional resort destinations such as Guam are capitalizing on the increasing Chinese outbound market due to visa waiver authority or more liberal entry requirements. As a result, the Airport intends to take a more active and aggressive role in the years long quest for China visa waiver authority.

United Airlines, a wholly owned subsidiary of United Continental Holdings Inc. and the successor to Continental Micronesia, is the largest air carrier serving the Airport and provides service to 15 destinations

accounting for an estimated 41% of the total enplaned passengers at the Airport in Fiscal Year 2016. The Airport serves as a hub in United Airlines' global route network, although passenger traffic remains predominantly origination and destination. United Airlines' Guam hub is designed to serve: (1) regional origin-destination passengers on short-haul flights to and from Guam, (2) origin-destination passengers on long-haul flights, primarily tourists visiting Guam, and (3) transit passengers on connecting or through flights.

In January 2018, United Airlines announced that they would be reducing flights out of Japan, South Korea and the Philippines due to reduced demand and higher competition from low cost carriers. United has stated that the cutbacks reflect current demand but that they are not reducing staff or removing flights out of Guam as they position themselves for a resurgence in air travel early next year. United Airlines also announced that they would end their service between Guam and Shanghai, China effective March 22, 2018. Further, United has discontinued flights between Guam and Sendai, Japan citing that after careful analysis, United determined that it is no longer economically sustainable to keep these flights. In April 2018, United Airlines announced an additional 20 flights between Guam and Japan will run for the month of August 2018 to accommodate the high travel demand during the summer holidays. 13 flights will operate out of Narita and seven will operate out of Nagoya. According to United Airlines, market conditions will be monitored continuously and will adjust seat capacity accordingly in order to meet demand.

Japan Airlines launched a second daily flight between Guam and Narita beginning in March 2018, which will continue until October 2018. GVB expects the route will receive good performance during the initial 7-month schedule and plans to work with the airline for a possibility of extension. This additional flight will fill the void left by Delta's suspension of flights, and United Airlines' reduction of seats between Guam and Japan.

South Korean air carriers (Korean Air, Air Busan, Air Seoul, Jeju Air, Jin Air and Tway Air) provide regularly scheduled air service to Guam and account for 42% of Guam's arrivals. South Korea-Guam route, Guam air seat capacity for Fiscal Year 2018 is projected at 804,355 seats, an 8.8% growth over Fiscal Year 2017 of 739,626 air seats.

Korean Air is the largest airline and flag carrier of South Korea, provides services to and from Busan and South Korea and has started operating a second daily flight to and from Incheon. Jeju Air, is a South Korean low-cost carrier that has provided daily flights between Incheon and Guam since September 2012 and regular Busan-Guam service since 2015. In addition, in 2018, Jeju Air expanded its operation on Guam increasing its service from 18 to 19 weekly flights in May 2018. In July 2018, Jeju Air will commence an inaugural flight service from Cheongju – Osaka Kansai to Guam. T'way Air began service in the 3rd quarter of 2015 and provides daily flights to Incheon, and three times weekly service on the Daegu/Kansai/Guam routes. Air Seoul Inc., a South-Korea-based low-cost carrier, began operating scheduled service between Incheon, South Korea and Guam in September 2017 and adding 60,349 of new annual air seats to Guam. Air Seoul plans to provide service year-round, scheduled foreign air transportation of persons, property and mail between Incheon and Guam utilizing an Airbus 321-200 with a capacity of 195 passengers.

Eva Air ceased service on the Guam-Taipei route as of June 2017. HK Express launched a four time weekly Hong Kong-Guam service on December 15, 2016, and three time weekly Hong Kong-Saipan service on January 17, 2017. However, the airline suspended flight services between Guam and Hong Kong effective June 26, 2017, due to space limitations at the Hong Kong International Airport. The Guam-Nagoya route, which was expected to begin in October 2017 is now delayed until summer of 2018.

Delta Airlines suspended its service to Guam on January 8, 2018. Based on Delta's service to Guam as of October 1, 2017, this is expected to result in a reduction of 56,000 annual seats to Guam from Japan. Delta's decision to suspend service to Guam was a result of reduced seat demand out of Japan, network rerouting and the entry of competitive airlines in the Guam market, particularly from South Korea.

In response to a growing demand from airline operators utilizing aircraft weighing 12,500 pounds or less on a scheduled or charter basis for inter-island passenger/cargo service, a Light Aircraft Commuter Facility opened for operations on October 1, 2015, and Star Marianas and Arctic Circle airlines began operations between Guam and the Marianas.

Political Self-Determination

Guam's political status and ability to self-govern has been discussed for decades. In the 1970s, Guam's leaders created special commissions to discuss political status. These commissions recognized the desires of the island's people, examining the island's political conditions and the status options available to Guam. There has been no change to the island's political status yet and Guam remains an unincorporated territory of the U.S.

In 1997, the Commission on Decolonization was established for the implementation and exercise of Chamorro Self-Determination. The Commission was tasked with educating Guam on the three status options available: free association, independence and statehood. However, the Commission was inactive for most of the early 2000s, until Governor Calvo relaunched it in 2011. Since then, more native inhabitants have been registered to vote. Governor Calvo also dedicated local funding for political status education - the first such funding provision in approximately 20 years.

In March 2016, the Commission received \$300,000 in federal funding from the U.S. Department of Interior for an education campaign necessary to help ensure native inhabitants (as defined by law) enabling them to make an informed decision when they vote in a plebiscite. However, the U.S. District Court has ruled that a vote by the native people of Guam on their political status is unconstitutional; the vote is now on hold. In light of this, the Commission on Decolonization will continue with its educational outreach. Several proposals for education have been introduced including a museum exhibit, a Department of Education curriculum framework, and a social media plan. The Commission is expected to continue its educational plans through 2018.

Military Activity

Recent world events have increased recognition of Guam's strategic military value and could result in increased military presence on Guam, bolstering the military's contribution to the Guam economy. A strong U.S. presence in the Pacific demonstrates active support for Japan, South Korea, Australia and other Pacific Rim allies and supports U.S. economic and security interests. Guam is positioned geographically to constitute an extended homeland defense perimeter, protecting the U.S. west coast and Hawaii from acts of aggression; and has the only substantial military facilities on U.S. soil in the Western Pacific Ocean. Military bases on Guam can support forward deployed capabilities in Asia and allow rapid response to any threat to the stability of the Asian region or any threat to the U.S. originating in the Asian region. Other advantages of Guam's military activity include:

- Geographic Location: Closer to potential flashpoints of conflict in Asia and the Middle East.
- U.S. Sovereign Territory: No need for host nation consent to pre-position war munitions, to deploy weapons or to conduct operations.
- Air Force, Navy and Marine Corps, Coast Guard, National Guard and Reserve facilities with substantial munitions, fuel supply, communications, command and control capabilities.
- Unencumbered air and sea space for live fire and special operations training including EOD, SEALs and other joint war fighting and operational readiness initiatives.
- Deep-water harbor with 17,000 linear feet of wharfage with ability to handle three million pounds of ordnance (net explosive weight).
- Significant airfield capability including dual, two mile long runways with contingency, mobilization and surge capable civilian airfields on Guam and CNMI.
- Repair capabilities for surface vessels, submarines, aircraft and combat equipment at the Intermediate Maintenance Facility, the privatized ship repair facility, the submarine tender, Naval Base Guam, Andersen Air Force Base and civilian facilities.

The map below shows Guam's location in the Pacific and relative distances between major cities in the Pacific Rim.



The map below identifies major ports that can be reached from Guam via sea in five days or less.



Military Personnel

In late July 2010, the Joint Guam Program Office of the Department of the Navy released its Final Environmental Impact Statement (“EIS”) pertaining to the proposed U.S. military build-up on Guam, and in September 2010 the DoD issued its Record of Decision pertaining to the EIS. At the time the EIS was released, it was anticipated that the military build-up would have three major parts: (i) relocation of part of the Third Marine Expeditionary Force from Okinawa, Japan, (ii) creation of the infrastructure for an aircraft carrier berthing, and (iii) installation of an Army Air and Missile Defense Task Force.

In the years following 2010, Guam began to experience a decrease in military personnel as a result of the delay in the relocation of the Third Marine Expeditionary Force from Okinawa and Iwakuni, Japan to Guam. Concerns regarding the high cost of the relocation, delays in relocating U.S. military personnel and facilities currently within Japan, and the U.S. budget deficit extended the implementation timeframe for the relocation of the U.S. Marines from Japan. The proposed U.S. military build-up now is not expected to occur until after 2018. In addition, the expected size of the build-up has decreased. In particular, the relocation of part of the Third Marine Expeditionary Force from Okinawa, Japan, originally was expected to result in the relocation to Guam of approximately 8,600 Marines with approximately 9,000 dependents over a 5-year period. Now, the new plans for the build-up are expected to relocate approximately 5,000 Marines and 1,300 dependents to Guam over a 12-year period and as discussed below, those plans are underway. The population change associated with the proposed military relocation would reach a maximum of 9,721 in 2023 and thereafter decline to a steady-state population increase of 7,412 by 2028, according to the SEIS (as defined below).

In July 2015, the DoD released the Supplemental Environmental Impact Statement (“SEIS”), which identified potential impacts associated with several alternatives for the cantonment/family housing component of this relocation, as well as for the live firing training range complex. The 2015 Record of Decision, which identifies the final locations for additional bases and facilities to accommodate the Marines, was signed on August 28, 2015. According to the Navy, the SEIS showed a significantly decreased footprint and a significant decrease in the potential strain on Guam’s infrastructure. Rather than the seven years of construction, the SEIS stated there would be 13 years of moderate construction with a gradual phase-out to follow. It is expected that the costs related to the development and construction of facilities accommodating the build-up will be funded by the federal government and the government of Japan.

The expected impact from the military build-up on Guam’s population is highlighted in Table B-13.

TABLE B-13
Estimated Total Population Increase⁽¹⁾
2015-2028

Year	<u>Direct</u> <u>DOD</u>	<u>Indirect and</u> <u>Induced</u>	<u>Off island</u> <u>Construction</u>	<u>Civilian Military</u> <u>workers</u>	<u>Dependents</u>	<u>Total</u>
2015	33	89	161	4	60	347
2016	46	254	1,071	5	348	1,724
2017	46	531	2,301	38	702	3,618
2018	46	663	3,227	75	910	4,921
2019	505	686	2,871	113	767	4,942
2020	3,898	897	2,587	150	660	8,192
2021	4,327	1,082	3,175	188	814	9,586
2022	4,327	1,046	2,978	225	810	9,386
2023	5,582	915	2,205	263	756	9,721
2024	5,582	716	1,350	300	636	8,584
2025	6,079	612	618	338	499	8,146
2026	6,300	513	46	338	335	7,532
2027	6,300	455	0	338	320	7,413
2028	6,300	453	0	338	320	7,411

⁽¹⁾ Estimates shown are not additions from year to year; they represent the aggregate project related increase as of any given year relative to Base Year of 2014.

Source: 2015 Final Supplemental Environmental Impact Statement (SEIS), Guam and CNMI Military Relocation Report.

The U.S. government may choose to relocate military fleets, equipment, and personnel from time to time to either increase or decrease the U.S. military presence on Guam, and the Government cannot predict whether or when such adjustments may occur. However, the military presence on Guam is generally expected to increase.

The U.S. Air Force hosts a rotating presence of bomber, tanker and fighter aircraft and permanently stationed RQ-4 Global Hawk unmanned aerial reconnaissance assets in addition to a variety of aircraft and contingency response training events. As of November 2017, the U.S. Navy home ports four nuclear fast attack submarines on Guam: the USS Oklahoma City, the USS Chicago, the USS Topeka, and the USS Key West.

Table B-14 Lists active duty military personnel on Guam from 2013 through 2017.

TABLE B-14
Active Duty Military Personnel on Guam
2013-2017

<u>Year</u>	<u>Air Force</u>	<u>Army</u>	<u>Coast Guard</u>	<u>Marines</u>	<u>Navy</u>	<u>Total</u>
2013	2,010	257	216	18	3,318	5,819
2014	2,074	257	206	16	3,453	6,006
2015	2,074	253	184	21	3,583	6,115
2016	1,852	240	195	28	3,257	5,572
2017 ⁽¹⁾	2,091	39	183	18	3,354	5,685

⁽¹⁾ Figures do not include Active Reservists.

Source: Joint Region Marianas Total Force Manpower (Formerly COMNAVMAR); Bureau of Statistics and Plans, Military Active Duty and Family Members on Guam.

Table B-15 lists military dependents on Guam from 2013 through 2017.

TABLE B-15
Military Dependents on Guam
2013-2017

<u>Year</u>	<u>Air Force</u>	<u>Army</u>	<u>Coast Guard</u>	<u>Marines</u>	<u>Navy</u>	<u>Total</u>
2013	2,099	2,384	348	36	2,385	7,252
2014	1,846	2,498	211	36	2,057	6,648
2015	1,847	2,916	200	31	2,217	7,211
2016	1,786	3,110	213	50	2,076	7,235
2017 ⁽¹⁾	2,785	62	207	33	2,787	5,874

⁽¹⁾ Figures do not include Reservists Dependents.

Source: Joint Region Marianas Total Force Manpower (Formerly COMNAVMAR); Bureau of Statistics and Plans, Military Active Duty and Family Members on Guam.

The Federal Procurement Data System indicates that \$189 million was awarded in Fiscal Year 2013; \$249 million in Fiscal Year 2014; \$206 million in Fiscal Year 2015; \$309 million in Fiscal Year 2016 and \$280 million awarded for Fiscal Year 2017. Procurement contracts awarded vary in areas from telecommunications, construction related activities and materials, and contracting for professional services (architects, engineers, medical laboratories, armored guards, janitors and technicians) to name a few.

Table B-16 reflects U.S. Department of Defense Procurement Contracts from 2013 through 2017.

TABLE B-16
U.S. Department of Defense Procurement Contracts for Guam
Fiscal Years 2013-2017

Fiscal Year	U.S. Department of Defense Procurement Contracts
2013	\$189,727,000
2014	\$249,310,000
2015	\$204,587,000
2016	\$309,732,000
2017	\$280,644,000

Source: Federal Procurement Data System-Next Generation (FPDS-NG), Link <https://www.fpds.gov>

Congressional authorizations for appropriations for military construction and family housing projects are depicted in Table B-17 below. In July 2015, the DoD released the SEIS, which identified potential impacts associated with several alternatives for the cantonment/family housing component of this relocation, as well as for the live firing training range complex. The 2015 Record of Decision identified the final locations for additional bases and facilities to accommodate the Marines. The National Defense Authorization Act for federal Fiscal Year 2015 authorized \$162 million for military construction in Guam, subject to the satisfaction of certain requirements, and set the maximum cost of moving the Marines from Japan to Guam at \$8.6 billion, of which \$3.1 billion of the cost will be provided by Japan, and the remaining cost to be provided by the United States.

TABLE B-17
U.S. Military Construction Authorizations for Guam
Fiscal Years 2014-2018

Year	Total Authorizations
2014	\$494,607,000
2015	\$162,451,000
2016	\$232,568,000
2017	\$248,658,000
2018	\$354,654,000

Source: The Committee on Armed Services, National Defense Authorization Acts

The National Defense Authorization Act for Fiscal Year 2018 includes approximately \$354.6 million for military construction on Guam. These projects include: Aircraft Maintenance Hangar #2 (\$75.2 million), Corrosion Control Hangar (\$66.7 million), Marine Aviation Logistic Squadron (MALS) Facilities (\$49.4 million), Navy Commercial Tie-In Hardening (\$37.1 million), Water Well Field (\$56.0 million), Construct Truck Load & Unload Facility (\$23.9 million), Reserve Medical Training Facility (\$5.2 million), and the Replacement of Andersen Housing Phase 2 (\$40.8 million). The National Defense Authorization Act for Fiscal Year 2018 also provided for 4,000 H-2B workers per fiscal year on island to support military build-up projects. Of the 4,000 H-2B laborers needed to sustain the immediate military construction demand, 600 H-2B petitions were approved in April 2018 primarily in the construction trades. Governor Calvo sent letters of support for about 1,500 skilled workers and continues working with the Guam Department of Labor and its federal and regional partners to build a larger local pool of skilled workers. Del. Madeleine Bordallo successfully included an additional rider in the House version of the Fiscal 2019 NDAA, extending Guam's exemption from the national H-2B cap until 2020.

TABLE B-18
National Defense Authorization Act for FY2018

<u>Navy</u>	<u>(\$000s)</u>
Aircraft Maintenance Hangar #2	\$75,233
Corrosion Control Hangar	\$66,747
MALS Facilities	\$49,431
Navy-Commercial Tie-in Hardening	\$37,180
Water Well Field	\$56,088
Replace Andersen Housing PH II	\$40,875
Total Navy Appropriations	\$325,554
 <u>Air Force</u>	 <u>(\$000s)</u>
Construct Truck Load & Unload Facility	\$23,900
Reserve Medical Training Facility	\$5,200
Total Air Force Appropriations	\$29,100

Source: The Committee on Armed Services, National Defense Authorization Acts

Recent Military Project Awards

In Fiscal Year 2016, Congress approved the appropriation of \$126 million for DoD infrastructure related projects. Of the \$106.4 million approved funding, \$55.7 million is allocated to the Guam Waterworks Authority for civilian water and wastewater improvements and capacity expansion related to the realignment of Marines from Okinawa to Guam. In August 2016, the DoD, through the OEA, awarded GWA approximately \$55.3 million in grants to fund civilian water and wastewater projects linked to the military build-up, including \$30.6 million to be applied to build and refurbish the sewer line that supports Andersen Air Force Base and the site of the new Marine Corps Base, \$21.0 million for improvements to the Northern District Wastewater Treatment Plant, \$3.7 million for improvements to the Northern Guam Lens Aquifer Monitoring System Expansion and Rehabilitation and \$350,000 to be used by the U.S. Environmental Protection Agency to analyze water and wastewater projects. In November 2017, the Office of Economic Adjustment awarded a total of \$129.9 million in grants to Guam for the construction of a cultural repository and improvement of the Northern District wastewater system. The Office of the Governor was awarded \$12 million for the planning, design, and construction of a Guam Cultural Repository, which will house culturally and historically significant artifacts uncovered during construction of military buildup related projects.

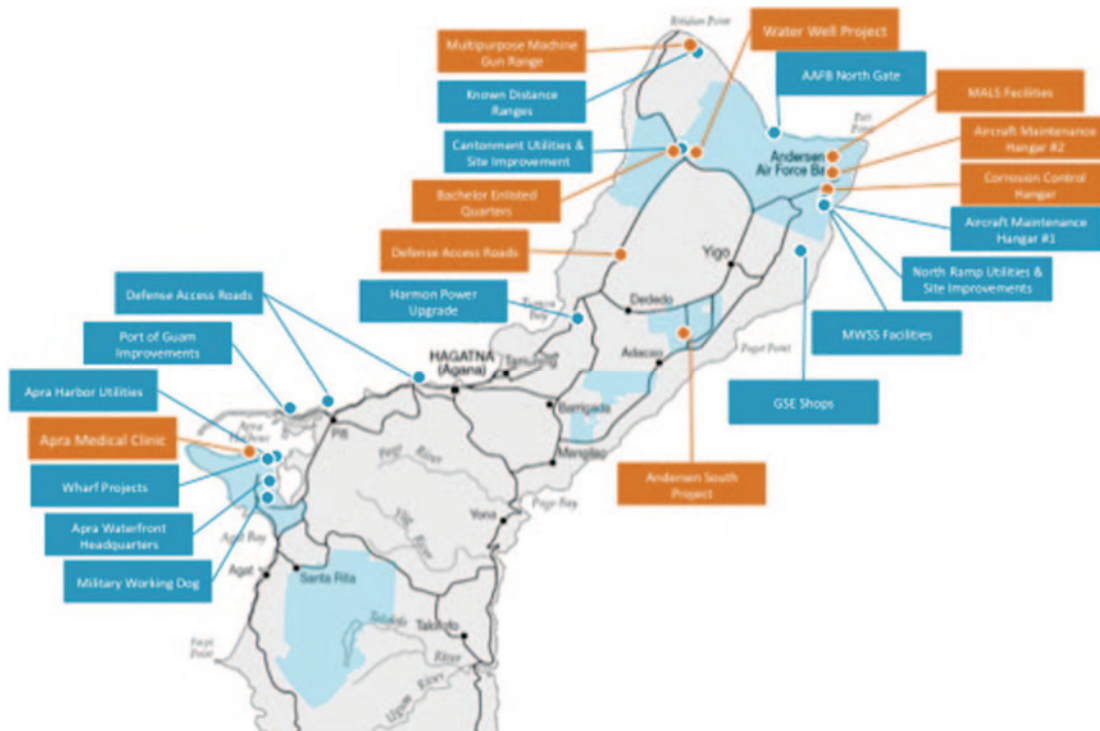
Recent construction awards further demonstrate that the military build-up, more than 12 years in the planning stages, is now ready to move forward. As of June 1, 2018, approximately nine projects related to the build-up have been completed totaling approximately \$510 million, eight projects totaling approximately \$495 million related to the build-up are currently under construction and six projects totaling approximately \$2.6 billion related to the build-up are in solicitation.

The Naval Facilities Engineering Command Pacific, awarded a \$164.89 million contract in August, 2017, to Granite-Obayashi for the design and construction of utilities and site improvements for the future Marine Corps Base. The contract includes utilities, roads and other infrastructure in preparation for new DoD base facilities in fiscal year 2020. Also in August, a \$78 million contract to design and build a live-fire training range complex at Northwest Field was awarded to a Guam based company, Black Construction Corp. The project is expected to be complete by November 2020.

Other military projects awarded include a \$41.16 million contract to Contrack Watts, Inc. for upgrades to the sewer system at Naval Base Guam (estimated completion date of January 2020), a \$28.5 million contract to Hensel Phelps Construction Co. for the construction of a power upgrade at the Joint Region Marianas, Guam (March

2020 estimated completion date) and a \$7.2 million contract to Tikigaa Construction LLC to build a landfill closure capping system at Anderson Air Force Base (estimated completion date of February 2019) and a \$17.9 million contract awarded to Contrack Watts, Inc., for the new naval waterfront headquarters in Apra Harbor (estimated completion date of April 2019). A more recent construction contract related to the military buildup was awarded in January 2018 to Reliable Builders, Inc., a Guam-based small business, in the amount of \$19.9 million for the construction of a hardened installation control center at Andersen Air Force Base related to the Air Power Resiliency initiative (estimated completion date of November 2019). APTIM Federal Services LLC, based in Alexandria, Virginia, was also awarded a contract in the amount of \$16.8 million for the maintenance and repair of underground and aboveground fuel pipelines at Defense Fuel Support Point Guam (estimated completion date of January 2021).

Figure 2
Recent Military Construction Activity



Source: Naval Facilities Engineering Command (NAVFAC), March 2018.

APPENDIX C

**AUDITED FINANCIAL STATEMENTS FOR
FISCAL YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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**PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF
THE GOVERNMENT OF GUAM)**

**FINANCIAL STATEMENTS, ADDITIONAL
INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

**SEPTEMBER 30, 2017 AND 2016
(AS RESTATED)**

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Port Authority of Guam:

Report on Financial Statements

We have audited the accompanying financial statements of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in note 8 to the financial statements, the Authority is a defendant in a claim filed by a former tenant (Guam YTK Corporation or YTK) of the Authority. The dispute was submitted to arbitration and in April 2016, the Arbitrators issued a decision in favor of YTK and awarded YTK approximately \$14 million. In December 2016, the Superior Court of Guam denied the Authority's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In January 2018, the Authority filed a Motion to Dismiss in the Supreme Court of Guam. No provision has been recorded in the accompanying financial statements pending final resolution of this matter.

As discussed in Note 1 to the financial statements, in 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68. As a result of adopting this standard, the Authority has elected to restate its 2016 financial statements to reflect the adoption of this standard.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12 as well as the Schedules of Proportional Share of the Net Pension Liability on pages 44 through 46, the Schedule of Pension Contributions on page 47, and the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pensions on page 48 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



April 19, 2018

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
September 30, 2017 and 2016

The following Management's Discussion and Analysis (MD&A) of the Port Authority of Guam (PAG, Port, Authority) provides an overview of the activities and financial performance for the fiscal years ended September 30, 2017 and 2016. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the accompanying notes which follow this section and are integral to the data contained in the financial statements.

ABOUT THE AUTHORITY

The Port Authority of Guam was established as a public corporation and an autonomous agency of the Government of Guam by Public Law 13-87 in October 1975. The Port operates the only commercial seaport in the Territory and is the primary seaport in Micronesia. It operates the largest U.S. deepwater port in the region and currently handles about 1-2 million tons of cargo a year. The Port owns 5 cargo-handling piers along with two fuel piers and three marinas. The cost of 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 Manager who are responsible for maintenance, operation and development of the Port and the agency's business affairs.

With over 90% of the region's goods and supplies passing through its doorways, the Port's impact on the quality and sustenance of life for residents of the region cannot be overstated. As Guam can only produce limited amounts of food and products on the island, the Port is truly the life link between the region and the rest of the world.

The Authority is dedicated to providing full services to ocean vessels in support of loading and unloading cargo from Guam and Micronesia. The Port Authority of Guam is the main lifeline of consumer goods into the island, and as such, recognizes its responsibility to deliver these goods in a timely 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 Authority dedicates all of its profits to the upgrading of equipment and facilities and the continued growth of the Island's seaport.

FINANCIAL HIGHLIGHTS

- The net position of the Authority as of September 30, 2017 was \$91 million. Of this amount, \$102.2 million is net investment in capital assets, \$8.4 million is considered restricted and \$(19.6) million is considered unrestricted.
- The Port's net position increased by \$4.1 million for fiscal year ended September 30, 2017.
- The Port's total assets increased by \$7.2 million during the fiscal year ended September 30, 2017. The major component of this change was an increase in current assets.
- The total liabilities increased by \$1.6 million during fiscal year ended September 30, 2017. The major component of this change was an increase in current liabilities.
- Since Fiscal Year 2003, the Port's finances have consistently showed an increase in net position for 15 straight years.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
September 30, 2017 and 2016

Overview of Financial Statements

The Authority's basic financial statements consist of the following: 1) statements of net position, 2) statements of revenues, expenses, and changes in net position, 3) statements of cash flows and 4) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

The statements of net position present information on all of the Authority's assets, deferred outflows and deferred inflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present information showing how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis

The largest portion of the Authority's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets, and excluding any outstanding debt proceeds. The Authority uses these assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Authority's net position represents resources that are unrestricted net position which may be used to meet the Authority's ongoing obligations to employees and creditors.

In 2017, the Authority adopted GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of the Authority's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The 2016 financial statements were also restated due to changes in actuarial assumptions and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan. See note 1 to the financial statements.

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A summarized comparison of the Port's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at September 30 is as follows:

Condensed Statements of Net Position
(In thousands)

<u>ASSETS</u>	<u>2017</u>	2016 (Restated)	2015 (Restated)
Current and other assets	\$ 47,525	\$ 41,191	\$ 31,407
Capital assets	<u>123,830</u>	<u>122,948</u>	<u>125,091</u>
Total assets	171,355	164,139	156,498
Deferred outflows of resources from pension	<u>6,177</u>	<u>7,170</u>	<u>5,567</u>
Total assets and deferred outflows of resources	\$ <u>177,532</u>	\$ <u>171,309</u>	\$ <u>162,065</u>
<u>LIABILITIES AND NET POSITION</u>			
Current liabilities	\$ 7,523	\$ 6,352	\$ 6,102
Other non-current liabilities	<u>77,963</u>	<u>77,554</u>	<u>70,190</u>
Total liabilities	<u>85,486</u>	<u>83,906</u>	<u>76,292</u>
Deferred inflows of resources from pension	<u>1,009</u>	<u>422</u>	<u>4,565</u>
Net position:			
Net investment in capital assets	102,242	101,528	104,706
Restricted – expendable	8,382	5,531	4,257
Unrestricted	<u>(19,587)</u>	<u>(20,078)</u>	<u>(27,755)</u>
Total net position	<u>91,037</u>	<u>86,981</u>	<u>81,208</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>177,532</u>	\$ <u>171,309</u>	\$ <u>162,065</u>

The Authority's total assets increased by \$7.2 million during the fiscal year ended September 30, 2017, from \$164.1 million in FY 2016 to \$171.4 million in FY 2017.

The Port's current and other assets increased by \$6.3 million or 15%, capital assets increased by \$882 thousand or 1% which resulted in an overall increase in total assets. Total liabilities increased by \$1.6 million or 2% from \$83.9 million in FY 2016 to \$85.5 million in FY 2017. This was primarily due to the increase in Port's current liabilities by \$1.2 million or 18%. The net position increased by \$4.1 million during the fiscal year ended September 30, 2017. Net position invested in capital assets net of related debt increased by \$714 thousand, restricted net position increased by \$2.9 million and unrestricted net position decreased by \$491 thousand.

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Management's Discussion and Analysis
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Key elements of this increase are identified in the following schedule of changes in net position and related explanations.

Port Authority of Guam
Changes in Net Position
(In thousands)

	<u>2017</u>	2016 (Restated)	<u>2015</u>
Operating revenues:			
Cargo throughput charges	\$ 36,807	\$ 38,206	\$ 34,309
Wharfage charges	4,986	4,930	4,617
Equipment and space rental	8,769	8,753	8,563
Special services	224	226	263
Other operating revenue	<u>108</u>	<u>93</u>	<u>919</u>
Total operating revenue	50,894	52,208	48,671
Recovery of (provision for) bad debts	<u>(141)</u>	<u>341</u>	<u>(222)</u>
	<u>50,753</u>	<u>52,549</u>	<u>48,449</u>
Operating expenses:			
Operations	12,351	11,593	8,814
Equipment maintenance	5,641	5,447	4,903
Facility maintenance	1,987	1,665	1,294
Management and administration	10,822	10,039	7,145
Retiree health care benefits	1,971	1,938	2,790
General expenses	<u>7,696</u>	<u>8,493</u>	<u>7,421</u>
Total operating expenses before depreciation	<u>40,468</u>	<u>39,175</u>	<u>32,367</u>
Operating income before depreciation	10,285	13,374	16,082
Depreciation	<u>6,103</u>	<u>6,145</u>	<u>4,817</u>
Operating income	4,182	7,229	11,265
Nonoperating expenses, net	<u>436</u>	<u>2,835</u>	<u>783</u>
Income before capital contributions	3,746	4,394	10,482
Capital contributions-US Government Grants	<u>310</u>	<u>1,379</u>	<u>51,476</u>
Increase in net position	4,056	5,773	61,958
Net position at beginning of the year	86,981	81,208	31,615
Restatement of beginning net position	<u>-</u>	<u>-</u>	<u>(12,365)</u>
Net position at end of year	\$ <u>91,037</u>	\$ <u>86,981</u>	\$ <u>81,208</u>

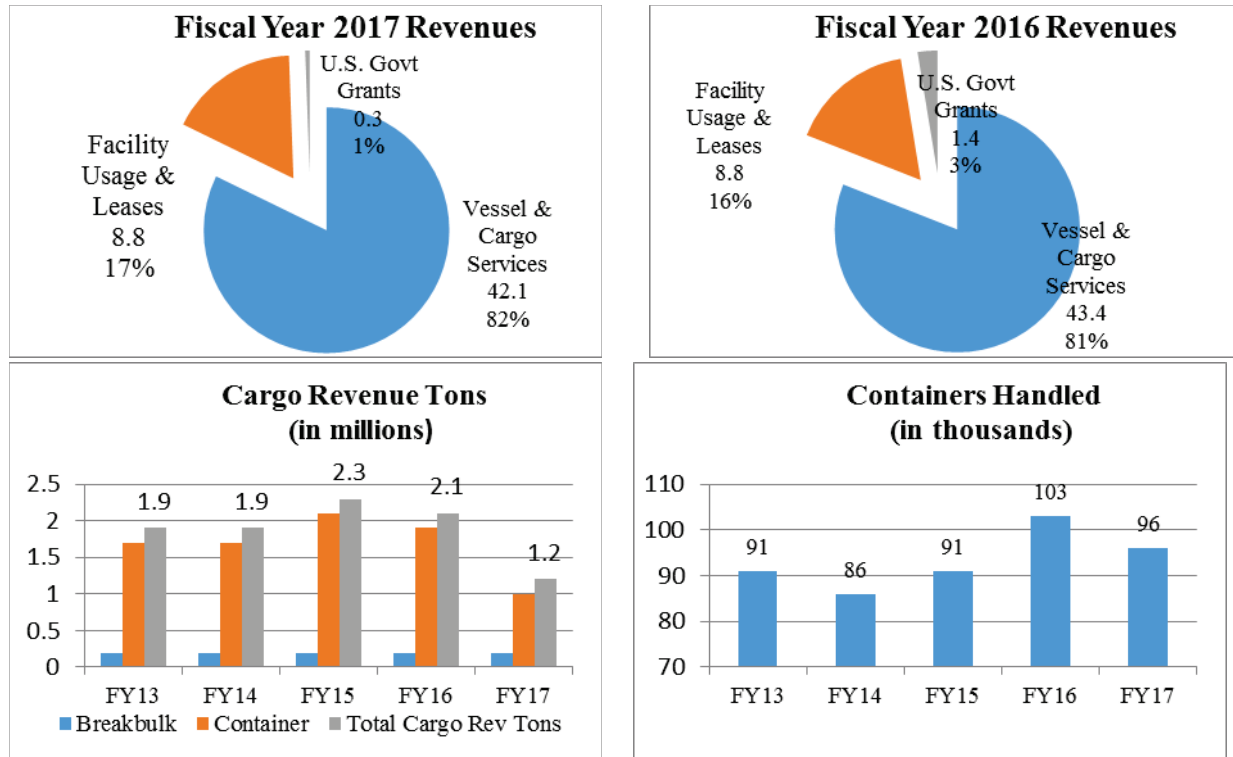
Revenues

- PAG Docket 17-01, 5 Year Tariff was approved by the PUC on April 27, 2017. 1st year rates were implemented on June 1, 2017. The petition implemented a 7% increase to PAG's Terminal Tariff rates with the exception of the Bunkering/Fuel throughput/Waste Oil rates and the Crane Surcharge.
- Vessel and cargo services revenues in FY 2017 decreased by \$1.4 million. The decrease was primarily due to 7% decrease in containers handled and 16% decrease in Breakbulk compared to FY2016.
- Facility usage and leases increased by \$16 thousand, from FY 2016 to FY 2017.
- Federal contributions in FY 2017 decreased by \$1.1 million, from \$1.4 million in FY 2016 to \$310 thousand in FY 2017. Decrease was a result of the completed federal projects in FY2016.

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Vessel and cargo services in FY 2016 increased by \$3.9 million compared to FY 2015 primarily due to the implementation of a rate increase and a cargo volume increase. PAG Docket 15-04, Multi Year Tariff Petition was approved by the PUC and rate was implemented on December 1, 2015.



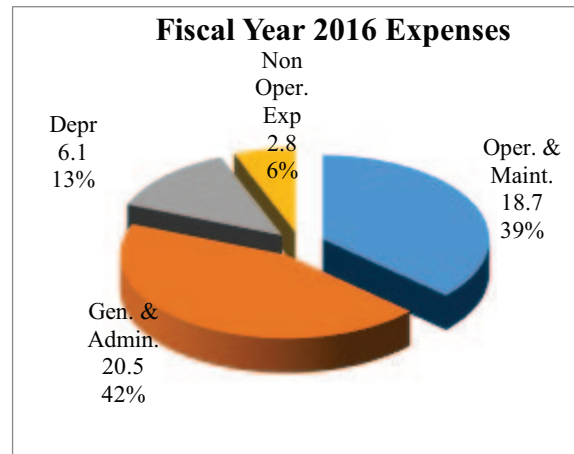
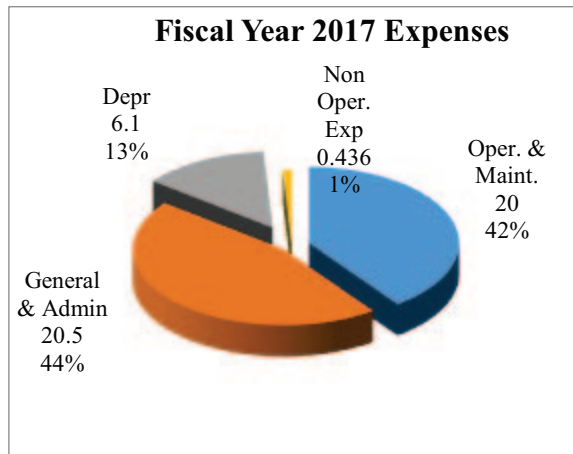
Expenses

In Fiscal Year 2017, total operating expenses were \$40.5 million and non-operating expenses were \$436 thousand. Operating expense increased by \$1.3 million and non-operating expenses decreased \$2.4 million compared to fiscal year 2016. Operating expenses for General Expense decreased \$797 thousand, Management & Administration increased \$783 thousand, Operations increased by \$758 thousand. Non-operating expenses decreased by \$2.4 million, due to loss on asset disposal in 2016. The major asset surveyed in fiscal year 2016 was Gantry 3.

In Fiscal Year 2016, total operating expenses were \$39.2 million and non-operating expenses were \$2.8 million. Operating expenses increased by \$6.8 million and non-operating expenses increased by \$2 million compared to fiscal year 2015.

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September 30, 2017 and 2016



Port Modernization Plan

The Authority partnered with the Maritime Administration (MARAD), through a Memorandum of Understanding (MOU), for the "Port of Guam Improvement Enterprise Program" (the Program). MARAD was designated as the lead federal agency assisting the Port in securing funding sources to modernize its facilities and operations. Under the Program, MARAD's role is to provide federal oversight and coordination of projects under the program, act as a central procurement organization, leverage federal, non-federal and private funding sources, and streamline the environmental review and permitting process. This partnership with MARAD was formalized through U.S. Public Law 110-417, National Defense Authorization Act for 2010. U.S. Public Law 110-417 also established the "Port of Guam Improvement Enterprise Fund" (the Fund) which is a separate account in the Treasury of the United States and to be used to receive funding from federal and non-federal sources to carry out the Program.

The Guam Commercial Port Improvement Program Phase I, Renovation of the CFS building into a 7,200 sp. Ft. single story office building for Port Operations personnel that were to be displaced as a result of the demolition of Warehouse 2 was completed and accepted by the Port on October 1, 2014.

Phase II, Demolition of Warehouse 2 and other selected structures, paving repairs to increase break bulk staging area to approximately 9 acres was completed in 2014 and was utilized by the Port beginning October 1, 2014.

Phase III, Facility Expansion, which is the largest construction project of the GCPI Program was completed. The expansion included expanding the Port's container yard by 4.6 acres, installation of high mast lighting in predetermined areas, a new terminal gate complex and runway, installation of oil water separators as required by Guam EPA, expansion of the east bulk yard and construction of dedicated suppression water tank. On August 3, 2015, MARAD did a partial turnover to the Port. The Port recorded Phase III in August as the Port was utilizing the facilities. On October 4, 2015, MARAD had turned over the remaining completed projects. Cost of the projects was taken from MARAD Financial Dashboard as of September 30, 2015. Adjustment to the facility expansion was recorded as a result of the updated Financial Dashboard as of September 2016. MARAD is working on closing out the project and the Port is expecting to receive the final costs and the remaining available funds are to be utilized to purchase equipment.

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Management's Discussion and Analysis
September 30, 2017 and 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Authority's investment in capital assets as of September 30, 2017, totaled \$124 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, office and cargo handling equipment, inventory and construction-in-progress. The total net increase in the Authority's investment in capital assets for the current fiscal year was \$882 thousand or 1%.

Major capital asset activity during 2017 included the following:

- Building and wharf account increased by \$9.8 million due to PAG Marine Service Life, Container Yard Striping and EQMR Canopies.
- Computer account increased by \$4.7 million due to the implementation of the Terminal Operating System.
- Crane account increased by \$1.3 million due to the acquisition of four (4) Toplifters.
- Tractor account increased by \$1.5 million due to the acquisition of sixteen (16) Tractors.

Please refer to note 3 to the financial statements for additional details regarding capital asset activities during fiscal year 2017 and 2016.

Debt

The Authority obtained a \$3.5 million loan from ANZ Bank in October 2010 for the purchase of 4 brand new Hyster Top Lifters and 10 brand new Ottawa terminal yard tractors.

In December 2012, the Authority obtained a \$12 million loan from ANZ Bank for the purchase of 3 used gantry cranes.

In April 2014, the Port obtained a \$10 million loan from BOG for the Service Life Extension project to repair and extend the life of the wharves, acquire multiple top lifter equipment and upgrade of its financial management system. Projects were completed in April 2017. The purchase of (4) new toplifters was processed and delivered in October 2016.

In July 2015, the Port obtained a \$2 million USDA direct loan for the purchase of 8-Tractors, 4-5 ton forklifts, telescopic boom lift, compact articulated boom lift, industrial sweeper, and 2-portable dual operation welding machine. All equipment were received by January 2017.

The financial covenant of the loans require the following ratios:

- a) Interest Coverage Ratio: For the \$3.5 million ANZ Bank loan, PAG shall maintain an Interest Coverage Ratio of 1.5 to 1, calculated as follows:

$$\frac{\text{Net Profit (Loss) Before Depreciation, Interest, Taxes and Amortization}}{\text{Total Interest Expense}}$$

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Management's Discussion and Analysis
September 30, 2017 and 2016

- b) Debt Service Coverage Ratio: For the two ANZ Bank loans, PAG shall maintain a Debt Service Coverage ratio of 1.30 to 1 and for the BOG loan, PAG shall maintain a Debt Service Coverage ratio of 1.20 to 1, calculated as follows:

$$\frac{\text{Net Profit (Loss) Before Depreciation, Interest, Taxes and Amortization}}{\text{Total Interest Expense + Principal Debt Reductions}}$$

The interest coverage ratio is 10.11 and the debt service coverage ratio is 3.93 for the year ended September 30, 2017.

Please refer to note 5 to the financial statements for additional details regarding financing activities during fiscal years 2017 and 2016.

Pending Litigation

The Port is in litigation with Guam YTK Corporation (YTK), a former tenant, regarding a lease agreement dated December 14, 2001. In 2012, YTK submitted its Claim against the Government of Guam. In 2013, the Superior Court of Guam issued a Decision and Order dismissing YTK's claims, which YTK appealed. In July 2014, the Supreme Court of Guam granted YTK's motion to compel arbitration. Arbitration began in 2016 and arbitrators issued a decision in favor of YTK. The Arbitrators awarded YTK: (1) Award amount of \$12.7M; (2) Ten percent (10%) interest per annum on the unpaid balance of the Award amount; and (3) Attorneys' fees of \$1.3M and costs of \$138 thousand. In July 2016, the Port filed a Motion to Vacate Arbitration Award in Superior Court of Guam. Judge Sukola denied the Port's motion on December 29, 2016.

On January 19, 2017, the Board of Directors duly passed a resolution authorizing legal counsel to defend the Port against the April 4, 2016 Arbitration Award and December 29, 2016 Superior Court of Guam Decision and Order. The Board further directed legal counsel to take this matter before the Supreme Court to protect the Port's interest. Legal Counsel submitted a brief for the appeal in January 2018.

FISCAL YEAR 2018 OUTLOOK

The following are the courses of action that the Port aims to accomplish or complete in FY 2018:

Bond Financing

PAG plans to issue revenue bonds in 2018 to provide funds for the purpose of financing or refinancing improvements and/or working capital relating to the Jose D. Leon Guerrero Commercial Port. The following are the capital projects under the 2013 Port Master Plan update and other projects identified by management to replace aging facilities.

- Rehabilitation of H-Wharf and Access Road (local share)
- Replacement of the Administration Building
- Waterline Relocation
- Warehouse I Building Repairs/Upgrades
- Equipment Maintenance & Repair (EQMR) Building
- Golf Pier Repairs

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Facility Maintenance Fee Projects

Through the Facility Maintenance Fee, the Authority plans to address 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
- Installation of 61 Additional Reefer Outlets
- Replacement of 4,000 Gallon Surface Diesel Fuel Tank with an 8,000 Gallon Tank

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:

- PAG was awarded the 2015 PSGP for two projects: 1) procure maintenance and sustainment contract for its CCTV and Access Control Systems, and 2) install additional security lights at various strategic port locations, specifically 4 new container yard security light poles and exterior high output lighting fixtures at the Warehouse I and Cabras Marine buildings.
- PAG was awarded the 2016 PSGP for two projects: 1) procurement of additional cameras for Hagatna Marina, Agat Marina, and the Port, and 2) Phase III supplemental lighting project for Industrial Road, roadway heading to H-Wharf, and other strategic Port locations.
- PAG was recently awarded the 2017 PSGP for three projects: 1) Refurbishment and Hardening of Load Center Buildings Housing Prime Generators, 2) Maintenance and Sustainment Contract for Prime Power Generators and 3) U.S. Coast Guard-endorsed NASBLA Tactical Operator's Course for Port Police.

Other Marina and Harbor of Refuge Projects

- Agat Marina demolition of B Dock under the Department of Agriculture Sport Fish Restoration Program. The Port anticipates to complete this project by September 2018.
- 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. U.S. Wildlife Fisheries Service requested an additional site assessment be performed to the actual moorage system, this was completed in November 2016. Architectural and Engineering Design of the pump-out system with shelter was completed in February 2017. Procurement and construction of pump out facility is anticipated to commence in mid-2018.

H-Wharf

On July 29, 2016, PAG was awarded \$10 Million under the FY 2016 Transportation Investment Generating Economic Recovery (TIGER) Grant, the remaining balance will be funded by PAG for the reconstruction, and expansion of H-Wharf built in 1948, including a new sheet pile bulkhead retaining wall and upgrades to an access road. The project also includes demolition of surface facilities and construction of additional structural components.

TIGER grants are one of the few federal funding programs available to public port authorities to help pay for critical infrastructure to move and handle freight more efficiently. \$61.8 million are going to six (6) commercial seaports. The Port was one of the six ports in the nation to receive TIGER grant to help pay for critical infrastructure. The Port plans to use bond funding for its matching share. PAG anticipates project to commence in mid-2018.

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Management's Discussion and Analysis
September 30, 2017 and 2016

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

The Management's Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Port's operations. This financial report is designed to provide a general overview of the Port Authority's finances and to demonstrate the Port's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the report on the audit of financial statements which is dated February 13, 2017. That Discussion and Analysis explains in more detail major factors impacting the 2016 financial statements. A copy of that report can be obtained via the contact below.

For additional information about this report, please contact Joann B. Conway, Port Authority of Guam, 1026 Cabras Highway Suite 201, Piti, Guam 96915 or visit the website at www.portguam.com.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Statements of Net Position
September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Current assets:		
Cash and cash equivalents - unrestricted	\$ 30,881,981	\$ 30,241,527
Cash and cash equivalents - restricted expendable	<u>8,382,257</u>	<u>5,530,865</u>
Total cash and cash equivalents	39,264,238	35,772,392
Accounts receivable, net of allowance for doubtful accounts of \$563,854 and \$551,948 in 2017 and 2016, respectively	7,075,677	4,892,405
Federal receivables	704,549	180,601
Prepaid expenses	<u>15,874</u>	<u>62,315</u>
Total current assets	47,060,338	40,907,713
Replacement parts inventories, net of allowance for obsolescence of \$77,364 and \$70,782 in 2017 and 2016, respectively	464,832	282,884
Depreciable property, plant and equipment, net	117,438,696	104,433,310
Nondepreciable property, plant and equipment	<u>6,391,706</u>	<u>18,514,993</u>
Total assets	<u>171,355,572</u>	<u>164,138,900</u>
Deferred outflows of resources from pension	<u>6,176,940</u>	<u>7,169,958</u>
Total assets and deferred outflows of resources	<u>\$ 177,532,512</u>	<u>\$ 171,308,858</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term bank debt	\$ 2,350,902	\$ 1,788,527
Accounts payable, trade and others	2,568,562	1,875,663
Security deposits and other payables	389,498	390,189
Accrued payroll and withholdings	779,339	665,854
Current portion of accrued annual leave	1,232,707	1,136,453
Unearned revenue	<u>201,802</u>	<u>495,729</u>
Total current liabilities	7,522,810	6,352,415
Long-term bank debt, net of current portion	18,858,975	18,044,897
Net pension liability	56,767,410	57,457,304
Accrued annual leave, net of current portion	444,045	401,958
Accrued sick leave	<u>1,893,141</u>	<u>1,649,857</u>
Total liabilities	<u>85,486,381</u>	<u>83,906,431</u>
Deferred inflows of resources from pension	<u>1,008,960</u>	<u>422,187</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	102,242,086	101,527,633
Restricted - expendable	8,382,257	5,530,865
Unrestricted	<u>(19,587,172)</u>	<u>(20,078,258)</u>
Total net position	<u>91,037,171</u>	<u>86,980,240</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 177,532,512</u>	<u>\$ 171,308,858</u>

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
Operating revenues:		
Cargo throughput charges	\$ 30,714,755	\$ 31,921,115
Equipment and space rental	8,768,740	8,753,079
Crane surcharge	6,092,371	6,284,894
Wharfage charges	4,986,049	4,930,170
Special services	223,791	225,560
Other operating income	108,227	92,951
	50,893,933	52,207,769
(Provision for) recovery of bad debts	(141,322)	341,007
	50,752,611	52,548,776
Operating expenses:		
Management and administration	10,821,867	10,039,097
Depreciation	6,103,304	6,144,649
Equipment maintenance	5,640,444	5,447,083
Transportation services	5,549,586	4,984,454
Stevedoring services	3,992,789	3,933,650
General expenses	3,733,610	4,788,404
Terminal services	2,808,718	2,675,823
Insurance	2,509,713	2,193,100
Facility maintenance	1,986,947	1,664,968
Retiree healthcare and other benefits	1,971,339	1,938,035
Utilities	1,451,907	1,511,229
Total operating expenses	46,570,224	45,320,492
Earnings from operations	4,182,387	7,228,284
Nonoperating (expenses) revenues:		
U.S. Government operating grants	835,873	793,913
Other income (expense), net	6,767	26,532
Interest (expense) income, net	(1,060,269)	(984,882)
Loss on disposal of property, plant and equipment	(218,269)	(2,670,887)
Total nonoperating expenses, net	(435,898)	(2,835,324)
Earnings before capital contributions	3,746,489	4,392,960
Contributed capital:		
U.S. Government grants	310,442	1,379,189
Increase in net position	4,056,931	5,772,149
Net position at beginning of year	86,980,240	81,208,091
Net position at end of year	\$ 91,037,171	\$ 86,980,240

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
Cash flows from operating activities:		
Cash received from customers	\$ 48,275,412	\$ 55,043,571
Cash payments to suppliers for goods and services	(10,218,376)	(12,210,631)
Cash payments to employees for services and benefits	(28,306,836)	(26,835,820)
Net cash provided by operating activities	<u>9,750,200</u>	<u>15,997,120</u>
Cash flows from investing activity - interest received	<u>55,439</u>	<u>68,145</u>
Cash flows from capital and related financing activities:		
Capital grants received	184,716	132,370
Proceeds from long-term bank debt	3,130,450	2,503,530
Repayment of long-term bank debt	(1,753,997)	(1,055,193)
Interest paid	(1,115,708)	(1,053,027)
Purchase of property, plant and equipment	(7,203,672)	(5,159,744)
Net cash used in capital and related financing activities	<u>(6,758,211)</u>	<u>(4,632,064)</u>
Cash flows from non-capital related financing activities:		
Operating grants received	437,651	793,913
Other non-capital activities	6,767	26,532
Cash provided by non-capital related financing activities	<u>444,418</u>	<u>820,445</u>
Net increase in cash and cash equivalents	3,491,846	12,253,646
Cash and cash equivalents at beginning of year	<u>35,772,392</u>	<u>23,518,746</u>
Cash and cash equivalents at end of year	<u><u>\$ 39,264,238</u></u>	<u><u>\$ 35,772,392</u></u>

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Statements of Cash Flows, Continued
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u> As restated (Note 1)
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 4,182,387	\$ 7,228,284
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	6,103,304	6,144,649
Provision for (recovery of) bad debts	141,322	(341,007)
Pension cost	889,897	612,836
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,324,594)	2,743,508
Prepaid expenses	46,441	(44,096)
Replacement parts inventories, net	(181,948)	(154,377)
Accounts payable, trade and others	692,899	(697,531)
Security deposits and other payables	(691)	42,771
Accrued payroll and withholdings	113,485	113,594
Accrued annual leave	138,341	81,781
Unearned revenue	(293,927)	92,294
Accrued sick leave	243,284	174,414
Net cash provided by operating activities	\$ <u>9,750,200</u>	\$ <u>15,997,120</u>

Supplemental information of noncash activity:

In 2016, the Authority acquired \$1.5 million of capital assets through federal grants.

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies

The Port Authority of Guam (the Authority) was created by Public Law 13-87 as an autonomous instrumentality of the Government of Guam to own and operate the facilities of the Commercial Port of Guam. All assets and liabilities were transferred from the Commercial Port of Guam to the Authority at book value effective April 20, 1976. The Authority is governed by a five-member Board of Directors appointed by the Governor with consent provided by the Legislature. The Authority is a component unit of the Government of Guam.

The Authority's main cargo handling facilities are located on thirty acres of reclaimed land on Cabras Island in Piti, Guam. Title to this land was transferred from the Government of Guam to the Authority in 1979. Eleven acres of adjacent property was assigned to the Authority from the U.S. Navy at an annual rent of \$1 to be used for future container yard expansion.

The Authority controls and/or manages approximately 260 acres of fast and submerged lands inclusive of the thirty acres noted previously. These areas include the Harbor of Refuge, Aqua World Marina, a portion of the Piti Channel, Agat Marina, Gregorio D. Perez Marina, Hotel Wharf, Dog Pier, Family Beach and the Port Authority Beach. The Guam Economic Development Authority (GEDA) has assigned the management of the thirty-two acre Cabras Industrial Park to the Authority.

On July 14, 2009, Public Law 30-52 placed the Authority under the oversight of the Public Utilities Commission of Guam (PUC). Because of the rate making process, certain differences may arise in the application of accounting principles generally accepted in the United States of America between regulated and non-regulated enterprises. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

Basis of Accounting

The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Operating and Nonoperating Revenues and Expenses

The Authority's revenues are derived primarily from providing various services to major shipping line customers under an approved tariff rate schedule and are reported as operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. Capital grants, financing or investing related transactions are reported as non-operating revenues and expenses. All expenses related to operating the Authority are reported as operating expenses. Capital grants and other capital contributions from governmental agencies are recorded as net position when earned. Operating grants are recorded as revenue when earned.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies, Continued

Net Position

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of the following three sections:

Net investment in capital assets:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted:

Nonexpendable - Net position subject to externally imposed stipulations that require the Authority to maintain them permanently.

Expendable - Net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time.

All of the Authority's restricted net position at September 30, 2017 and 2016 is expendable.

Unrestricted:

Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash and Cash Equivalents

For purposes of the statements of net position and of cash flows, cash and cash equivalents is defined as cash on hand and deposits in banks and time certificates of deposit with initial maturities of three months or less. Restricted cash is considered to be cash and cash equivalents but is separately classified in the statement of net position.

Accounts Receivable and Allowance for Doubtful Accounts

Substantially all of the Authority's accounts receivable as of September 30, 2017 and 2016 are due from international steamship lines/agents which are located or operating on Guam.

The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 30 days from the date of billing. As of September 30, 2017 and 2016, receivables that are more than thirty days past due totaled \$1,991,313 and \$1,244,328, respectively. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Uncollectible accounts are written-off against the allowance or are charged to expense in the period the Authority deems the accounts to be uncollectible.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies, Continued

Replacement Parts Inventories

Replacement parts inventories consist of spare parts and supplies stated at average cost and are charged to expense as used. Due to the nature and availability of parts necessary for operations, inventory includes items which often are not used within one year. Thus, replacement parts inventories are classified as non-current assets.

Property, Plant and Equipment and Depreciation

Land is recorded at its appraised value on the date of transfer from the Government of Guam. Buildings and structures are stated at cost, which includes interest during the construction period. Equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 40 years for buildings and equipment). Current policy is to capitalize individual purchases over \$1,000 with useful lives exceeding one year. Normal maintenance and repairs are charged to operating expense as incurred; expenditures for major additions, improvements, infrastructure and replacements are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to nonoperating revenue or expense, respectively.

Compensated Absences

Compensated absences are recorded as a long-term liability in the statements of net position. Estimated amounts to be paid during the next fiscal year are reported as current liabilities. Vacation pay is convertible to pay upon termination of employment.

In accordance with Public Law No. 27-5 and Public Law No. 28-68, employee vacation accrual rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service as follows:

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service;
2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with more than five (5) years of service but less than fifteen (15) years of service; and
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

The statutes further amended the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law No. 27-106 allows employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, to carry over their excess and to use the excess amount of leave prior to retirement or termination from service or they may credit not more than 100 excess hours to sick leave. However, at retirement, lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours is not allowed.

Public Law 26-86 allows members of the Defined Contribution Retirement System (DCRS) to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies, Continued

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Authority recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents the Authority's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. The total pension liability also includes the Authority's proportionate share of the liability for ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments that are anticipated to be made to defined benefit plan members and for anticipated future COLA to DCRS members. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until the applicable future period.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until the applicable future period.

Taxes

As an instrumentality of the Government of Guam (GovGuam), the Authority and all property acquired by or for the Authority, and all revenues and income there from are exempt from taxation by GovGuam or by any political subdivision or public corporation thereof and from all taxes imposed under the authority of the Guam Legislature, or with respect to which the Guam Legislature is authorized to grant exemption.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies, Continued

Risk Management

The Authority has commercial insurance coverage for directors' and officers' liability, comprehensive liability, employee dishonesty and forgery, money and securities loss, and automobile injury and property damage. Worker's compensation is managed through the local Department of Labor under the Government of Guam Special Fund (Special Fund); however, the Authority reimburses the Special Fund for the costs of claims. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles. The Authority incurred no casualty losses in excess of insurance coverage during the years ended September 30, 2017, 2016 and 2015.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

During the year ended September 30, 2017, the Authority implemented the following pronouncements:

- GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of the Authority's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The 2016 financial statements were also restated as follows due to changes in actuarial assumptions and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

	As Previously <u>Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of October 1, 2015:			
Net position	\$ 93,572,497	\$ (12,364,406)	\$ 81,208,091
For the year ended September 30, 2016:			
Change in net position	\$ 7,092,301	\$ (1,320,152)	\$ 5,772,149
As of September 30, 2016:			
Deferred outflows of resources from pension	\$ 5,292,446	\$ 1,877,512	\$ 7,169,958
Net pension liability	\$ (42,317,421)	\$ (15,139,883)	\$ (57,457,304)
Deferred inflows of resources from pension	\$ -	\$ (422,187)	\$ (422,187)
Net position	\$ 100,664,798	\$ (13,684,558)	\$ 86,980,240

- GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, Tax Abatement Disclosures, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, which addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions.
- GASB Statement No. 80, Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Except for GASB Statement No. 73, the implementation of these statements did not have a material effect on the Authority's financial statements.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on an actuarial valuation dated October 1, 2015, the net OPEB obligation that the Authority will record upon implementation of Statement 75 is anticipated to be \$38,932,903 as of September 30, 2017.

In March 2016, GASB issued Statement No. 81, Irrevocable Split-Interest Agreements, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, Omnibus 2017, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, Leases, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

(2) Deposits

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2017 and 2016, the carrying amount of the Authority's cash and cash equivalents totaled \$39,264,238 and \$35,772,392, respectively, and the corresponding bank balances were \$39,268,752 and \$35,590,533, respectively, all of which were maintained in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2017 and 2016, bank deposits in the amount of \$500,000 were FDIC insured for both years. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(3) Property, Plant and Equipment

A summary of changes in property, plant and equipment for the years ended September 30, 2017 and 2016 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2016</u>	<u>Transfers</u> <u>and Additions</u>	<u>Transfers</u> <u>and Deletions</u>	<u>Ending Balance</u> <u>September 30, 2017</u>
<u>Depreciable:</u>				
Buildings	\$ 131,289,544	\$ 9,877,234	\$ -	\$ 141,166,778
Equipment	<u>25,465,931</u>	<u>9,430,525</u>	<u>(1,462,677)</u>	<u>33,433,779</u>
	156,755,475	19,307,759	(1,462,677)	174,600,557
Less accumulated depreciation	<u>(52,322,165)</u>	<u>(6,103,304)</u>	<u>1,263,608</u>	<u>(57,161,861)</u>
	<u>104,433,310</u>	<u>13,204,455</u>	<u>(199,069)</u>	<u>117,438,696</u>
<u>Non-depreciable:</u>				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	<u>14,951,993</u>	<u>2,341,019</u>	<u>(14,464,306)</u>	<u>2,828,706</u>
	<u>18,514,993</u>	<u>2,341,019</u>	<u>(14,464,306)</u>	<u>6,391,706</u>
Total	\$ <u>122,948,303</u>	\$ <u>15,545,474</u>	\$ <u>(14,663,375)</u>	\$ <u>123,830,402</u>

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(3) Property, Plant and Equipment, Continued

	Beginning Balance <u>October 1, 2015</u>	Transfers and Additions	Transfers and Deletions	Ending Balance <u>September 30, 2016</u>
<u>Depreciable:</u>				
Buildings	\$ 130,368,940	\$ 3,349,745	\$ (2,429,141)	\$ 131,289,544
Equipment	<u>32,902,231</u>	<u>2,278,027</u>	<u>(9,714,327)</u>	<u>25,465,931</u>
	163,271,171	5,627,772	(12,143,468)	156,755,475
Less accumulated depreciation	<u>(54,760,791)</u>	<u>(6,144,649)</u>	<u>8,583,275</u>	<u>(52,322,165)</u>
	<u>108,510,380</u>	<u>(516,877)</u>	<u>(3,560,193)</u>	<u>104,433,310</u>
<u>Non-depreciable:</u>				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	<u>13,017,315</u>	<u>7,453,401</u>	<u>(5,518,723)</u>	<u>14,951,993</u>
	<u>16,580,315</u>	<u>7,453,401</u>	<u>(5,518,723)</u>	<u>18,514,993</u>
Total	\$ <u>125,090,695</u>	\$ <u>6,936,524</u>	\$ <u>(9,078,916)</u>	\$ <u>122,948,303</u>

(4) Employees' Retirement Plans

A. General Information About the Pension Plans:

Defined Benefit Plan

Plan Description: The Authority participates in the GovGuam Defined Benefit (DB) Plan, a single-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes the Authority, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commenced on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

A single actuarial calculation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Plan Membership: As of September 30, 2016, the most recent measurement date, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,298
Terminated employees entitled to benefits but not yet receiving them	4,463
Current members	<u>2,208</u>
	<u>13,969</u>

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater.

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(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age.

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

Contributions and Funding Policy: Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the September 30, 2015 actuarial valuation was used for determining the year ended September 30, 2017 statutory contributions. Member contributions are required at 9.55% of base pay (9.54% in 2016).

As a result of actuarial valuations performed as of September 30, 2015, 2014, and 2013, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2017, 2016 and 2015, respectively, have been determined as follows:

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(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Normal costs (% of DB Plan payroll)	16.27%	15.86%	15.92%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.54%</u>	<u>9.55%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.72%</u>	<u>6.32%</u>	<u>6.37%</u>
Employer portion of normal costs (% of total payroll)	1.87%	1.94%	2.05%
Unfunded liability cost (% of total payroll)	<u>21.60%</u>	<u>22.42%</u>	<u>24.09%</u>
Government contribution as a % of total payroll	<u>23.47%</u>	<u>24.36%</u>	<u>26.14%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.41%</u>	<u>28.16%</u>	<u>29.85%</u>
Employee	<u>9.55%</u>	<u>9.54%</u>	<u>9.55%</u>

The Authority's contributions to the DB Plan for the years ended September 30, 2017, 2016 and 2015 totaled \$1,327,533, \$1,343,278 and \$1,484,519, respectively, which are equal to the required contributions for those years.

Actuarial Assumptions: Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	14.58 years
Asset Valuation Method:	3-year smoothed market value
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	6.70%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.

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(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

Mortality: RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.

Other information: Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

Discount Rate: The total pension liability is calculated using a discount rate that is a blend of the expected investment rate of return and a high quality bond index rate. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except ad hoc cost-of-living adjustments (COLA) and supplemental annuity (SA) payments to DB retirees. The rate of return of a high quality bond index applies to the ad hoc COLAs and supplemental annuity payments to DB retirees, which are not funded by plan assets. The blended rate calculated as described above is 6.70%.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.70%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate <u>5.70%</u>	Current Discount Rate <u>6.70%</u>	1% Increase in Discount Rate <u>7.70%</u>
Net Pension Liability	\$ <u>53,400,201</u>	\$ <u>43,796,523</u>	\$ <u>35,530,359</u>

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

Plan Description: The Authority participates in the GovGuam ad hoc COLA/supplemental annuity plan for DB retirees, a single-employer defined benefit pension plan administered by the GGRF. The Authority considers this as a separate pension plan for DB retirees. A single actuarial calculation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for this plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Plan Membership: The plan membership is the same as the DB plan described above.

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(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees, Continued

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA and supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. Ad hoc COLAs are made through annual allocations to provide DB Plan retired members and spouse survivors with COLA payments of \$2,000 per year. In addition, DB Plan retired members and survivors whose benefits commenced prior to October 1, 1995, have received supplemental annuity payments in the amount of \$4,238 per year, but not to exceed \$40,000 per year when combined with their regular annual retirement annuity. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

The Authority's contributions to the Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees for the years ended September 30, 2017, 2016 and 2015 were \$979,915, \$1,018,210 and \$1,040,560, respectively, which were equal to the statutorily required contributions.

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	6.70%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.

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(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees, Continued

Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.
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Discount Rate: The total pension liability is calculated using a discount rate that is a blend of the expected investment rate of return and a high quality bond index rate. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments to DB retirees. The rate of return of a high quality bond index applies to the ad hoc COLAs and supplemental annuity payments to DB retirees, which are not funded by plan assets. The blended rate calculated as described above is 6.70%.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.70%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate <u>5.70%</u>	Current Discount Rate <u>6.70%</u>	1% Increase in Discount Rate <u>7.70%</u>
Net Pension Liability	\$ <u>10,501,479</u>	\$ <u>9,759,549</u>	\$ <u>9,102,783</u>

Ad Hoc COLA Plan for DCRS Retirees

Plan Description: The Authority participates in the GovGuam ad hoc COLA plan for DCRS retirees, a single-employer defined benefit pension plan administered by the GGRF. The Authority considers this as a separate pension plan for DCRS retirees. A single actuarial calculation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for this plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Plan Membership: As of September 30, 2016, the most recent measurement date, plan membership consisted of 8,858 active DCRS participants.

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA benefits, contributions and funding policy are the same as those for DB retirees.

The Authority's contributions to the Ad Hoc COLA Plan for DCRS Retirees for the years ended September 30, 2017, 2016 and 2015 were \$82,000, \$74,000 and \$68,000, respectively, which were equal to the statutorily required contributions.

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(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA Plan for DCRS Retirees, Continued

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	3.058%
Retirement age:	5% per year from age 55 to 64, 10% per year from age 65 to age 74, 100% at age 75
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

Discount Rate: The total pension liability is calculated using a discount rate of 3.058% that is the high quality bond index rate. The rate of return of a high quality bond index applies to benefit payments that are not funded by plan assets.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.058%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate <u>2.058%</u>	Current Discount Rate <u>3.058%</u>	1% Increase in Discount Rate <u>4.058%</u>
Net Pension Liability	\$ <u>3,668,262</u>	\$ <u>3,211,338</u>	\$ <u>2,822,541</u>

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(4) Employees' Retirement Plans, Continued

- B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

Pension Liability: At September 30, 2017 and 2016, the Authority reported a net pension liability for its proportionate shares of the GovGuam net pension liabilities which comprised of the following:

	<u>2017</u>	<u>2016</u>
Defined benefit plan	\$ 43,796,523	\$ 44,375,587
Ad hoc COLA/supplemental annuity plan for DB retirees	9,759,549	10,037,574
Ad hoc COLA plan for DCRS retirees	<u>3,211,338</u>	<u>3,044,143</u>
	\$ <u>56,767,410</u>	\$ <u>57,457,304</u>

The Authority's proportion of the GovGuam net pension liabilities was based on projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2017 and 2016, the Authority's proportionate shares of the GovGuam net pension liabilities were as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit plan	3.20%	3.09%
Ad hoc COLA/supplemental annuity plan for DB retirees	4.25%	4.26%
Ad hoc COLA plan for DCRS retirees	5.21%	5.84%

Pension Expense: For the years ended September 30, 2017 and 2016, the Authority recognized pension expense from the above pension plans as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit plan	\$ 5,165,848	\$ 4,753,162
Ad hoc COLA/supplemental annuity plan for DB retirees	719,925	700,508
Ad hoc COLA plan for DCRS retirees	<u>241,934</u>	<u>249,839</u>
	\$ <u>6,127,707</u>	\$ <u>5,703,509</u>

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(4) Employees' Retirement Plans, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Deferred Outflows and Inflows of Resources: At September 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017					
	Defined Benefit Plan		Ad Hoc COLA/SA Plan for DB Retirees		Ad Hoc COLA Plan for DCRS Retirees	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 144,281	\$ 764	\$ -	\$ 61,988	\$ 27,030
Net difference between projected and actual earnings on pension plan investments	-	229,077	-	-	-	-
Changes of assumptions	124,701	-	10,067	-	350,709	-
Contributions subsequent to the measurement date	4,210,492	-	979,915	-	82,000	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	<u>356,304</u>	<u>-</u>	<u>-</u>	<u>2,196</u>	<u>-</u>	<u>606,376</u>
	<u>\$ 4,691,497</u>	<u>\$ 373,358</u>	<u>\$ 990,746</u>	<u>\$ 2,196</u>	<u>\$ 494,697</u>	<u>\$ 633,406</u>

	2016 (as restated)					
	Defined Benefit Plan		Ad Hoc COLA/SA Plan for DB Retirees		Ad Hoc COLA Plan for DCRS Retirees	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 530,712	\$ -	\$ -	\$ 21,945	\$ -	\$ 32,324
Net difference between projected and actual earnings on pension plan investments	478,202	-	-	-	-	-
Changes of assumptions	596,147	-	51,012	-	138,143	-
Contributions subsequent to the measurement date	4,017,046	-	1,018,210	-	74,000	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	<u>266,486</u>	<u>-</u>	<u>-</u>	<u>42,128</u>	<u>-</u>	<u>325,790</u>
	<u>\$ 5,888,593</u>	<u>\$ -</u>	<u>\$ 1,069,222</u>	<u>\$ 64,073</u>	<u>\$ 212,143</u>	<u>\$ 358,114</u>

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(4) Employees' Retirement Plans, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2017 will be recognized in pension expense as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Defined</u> <u>Benefit Plan</u>	<u>Ad Hoc COLA/SA</u> <u>Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan</u> <u>for DCRS Retirees</u>
2018	\$ (170,159)	\$ 8,635	\$ (14,509)
2019	116,311	-	(14,509)
2020	407,777	-	(14,509)
2021	(246,282)	-	(14,509)
2022	-	-	(14,509)
Thereafter	<u>-</u>	<u>-</u>	<u>(148,164)</u>
	\$ <u>107,647</u>	\$ <u>8,635</u>	\$ <u>(220,709)</u>

Defined Contribution Retirement System (DCRS)

Contributions into the DCRS plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual investment account within the DCRS. Employees are afforded the opportunity to select from different investment accounts available under the DCRS.

Statutory employer contributions for the DCRS plan for the years ended September 30, 2017 and 2016, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS plan are always 100% vested in their own contributions, plus earnings thereon. Upon completion of five years of governmental service, as defined, DCRS members are 100% vested in employer contributions plus any earnings thereon.

The Authority's contributions for the DCRS plan payroll for the years ended September 30, 2017, 2016 and 2015 were \$3,548,584, \$3,251,007 and \$3,250,299, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$2,882,959, \$2,673,768 and \$2,688,140 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2017, 2016 and 2015, respectively.

Public Law 26-86 allows members of the DCRS plan to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The Authority has accrued an estimated liability of \$1,893,141, \$1,649,857 and \$1,475,443 at September 30, 2017, 2016 and 2015, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

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(4) Employees' Retirement Plan, Continued

Other Post-Employment Benefits

Plan Description: GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides postemployment medical, dental and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

Funding Policy: GovGuam contributes to the Plan a portion of the medical and dental premiums based on a schedule of semi-monthly rates provided through insurance companies, with GovGuam's contribution amount set each year at renewal. Retirees are also required to pay a portion of the medical and dental insurance premiums. Medical coverage continues to the spouse after the death of the retiree provided the spouse makes the required contributions. Retirees and covered spouses are eligible for a \$10,000 life insurance benefit. Retirees do not share in the cost of this benefit. Monthly life insurance premium is \$15.52 per covered life.

For the years ended September 30, 2017, 2016 and 2015, the Authority reimbursed GovGuam for its contributions to the abovementioned Plan of \$1,971,339, \$1,938,035 and \$1,681,679, respectively, which were equal to the statutorily required contributions.

PAG's net OPEB obligation at September 30, 2017, 2016 and 2015 for the above mentioned Plan is as follows:

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ <u>38,932,903</u>	\$ <u>34,129,969</u>	\$ <u>29,497,000</u>

Defined Benefit 1.75 Retirement System (the DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP)

In September 2016, Public Law 33-186 was enacted to create two new government retirement plans; the DB 1.75 Plan and the GRSP. Beginning January 1, 2018, the DB 1.75 Plan and GRSP are to become the primary retirement systems for all new hires.

The DB 1.75 Plan is open for participation by certain existing employees, new employees, and reemployed employees who would otherwise participate in the DCRS Plan or the new GRSP and who make election on a voluntary basis to participate in the DB 1.75 Plan by December 31, 2017. Employee contributions are made by mandatory pre-tax payroll deductions at the rate of 9.5% of the employee's base salary while employer contributions are actuarially determined. Members of the DB 1.75 Plan automatically participate in the GovGuam deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution.

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(4) Employees' Retirement Plan, Continued

Defined Benefit 1.75 Retirement System (the DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP), Continued

The GRSP will be the primary retirement plan for new employees beginning January 1, 2018, unless the employee elects to participate in the DCRS Plan within 60 days of the employee's hire date. Certain existing and reemployed employees are also provided a limited opportunity to participate in the GRSP. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 6.2% of the employee's base salary. The employer makes matching contributions at the same rate of 6.2% of the employee's base salary.

(5) Long-Term Liabilities

Summary

Long-term liabilities of the Authority consist of annual leave and sick leave payable to its employees, net pension liability and long-term bank debt. Changes in long-term liabilities for the years ended September 30, 2017 and 2016 are as follows:

	Outstanding at September 30, 2016 <u>(as restated)</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding at September 30, 2017 <u>(as restated)</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$ 1,538,411	\$ 1,553,943	\$ 1,415,602	\$ 1,676,752	\$ 1,232,707	\$ 444,045
Accrued sick leave	1,649,857	875,492	632,208	1,893,141	-	1,893,141
Long-term bank debt	19,833,424	3,130,450	1,753,997	21,209,877	2,350,902	18,858,975
Net pension liability	<u>57,457,304</u>	<u>4,419,362</u>	<u>5,109,256</u>	<u>56,767,410</u>	<u>-</u>	<u>56,767,410</u>
	<u>\$ 80,478,996</u>	<u>\$ 9,979,247</u>	<u>\$ 8,911,063</u>	<u>\$ 81,547,180</u>	<u>\$ 3,583,609</u>	<u>\$ 77,963,571</u>
	Outstanding at September 30, 2015 <u>(as restated)</u>	<u>Increases (as restated)</u>	<u>Decreases</u>	Outstanding at September 30, 2016 <u>(as restated)</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$ 1,456,630	\$ 1,216,027	\$ 1,134,246	\$ 1,538,411	\$ 1,136,453	\$ 401,958
Accrued sick leave	1,475,443	677,423	503,009	1,649,857	-	1,649,857
Long-term bank debt	18,385,087	2,503,530	1,055,193	19,833,424	1,788,527	18,044,897
Net pension liability	<u>51,098,271</u>	<u>11,640,251</u>	<u>5,281,218</u>	<u>57,457,304</u>	<u>-</u>	<u>57,457,304</u>
	<u>\$ 72,415,431</u>	<u>\$ 16,037,231</u>	<u>\$ 7,973,666</u>	<u>\$ 80,478,996</u>	<u>\$ 2,924,980</u>	<u>\$ 77,554,016</u>

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2017 and 2016

(5) Long-Term Liabilities, Continued

Long-Term Bank Debt

Long-term bank debt consists of the following at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
<ul style="list-style-type: none"> \$2,000,000 loan obtained from United States Department of Agriculture (USDA) on July 15, 2015. The loan bears interest at 3.625% and is payable in monthly principal and interest installments of \$27,000 over seven years. Proceeds of the loan were used to fund the acquisition of cargo handling equipment, which is also pledged as collateral for the loan. 	\$ 1,434,000	\$ 1,700,752
<ul style="list-style-type: none"> Two loans not to exceed a total of \$10,000,000 obtained from Bank of Guam on April 3, 2014. One loan (SLE Loan) was used for the purpose of funding the cost of service life extension repairs to berths and wharves. The other loan (Purchase Loan) was used for funding the cost of software acquisition for the purpose of upgrading the financial management system and of equipment purchases. Each loan bears interest at 2.55% above the Federal Home Loan Bank of Seattle Long Term 5-year amortizing fixed rate in effect from time to time or 3.75% whichever is greater. The interest rate shall be adjusted on the fifth anniversary. At September 30, 2017 and 2016, the SLE and Purchase Loans bear interest at 4.14% and 3.94%, respectively. Each loan is payable in ten years from drawdown dates with only interest due for the first two years. The outstanding principal balances of the SLE and Purchase Loans as of September 30, 2017 are \$5,396,840 and \$2,829,050, respectively. The outstanding principal balances of the SLE and Purchase Loans as of September 30, 2016 are \$4,732,794 and \$1,000,000, respectively. 	8,225,890	5,732,794
<ul style="list-style-type: none"> \$12,000,000 loan obtained from ANZ Guam, Inc. (ANZ) on December 20, 2012, guaranteed by USDA. The term loan bears interest at 3.42% above the Federal Home Loan Bank of Seattle's 15-year amortizing rate at the time of funding (5.94% at September 30, 2017 and 2016) and is payable in monthly principal and interest installments of \$101,427 over fifteen years. Proceeds of the loan were used to finance the acquisition of the used cranes identified as Port of Los Angeles Cranes and Gantry Cranes (collectively the "cranes") which are also pledged as collateral for the loan. 	9,288,632	9,925,985

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Notes to Financial Statements
September 30, 2017 and 2016

(5) Long-Term Liabilities, Continued

Long-Term Bank Debt, Continued

	<u>2017</u>	<u>2016</u>
<ul style="list-style-type: none"> \$3,500,000 loan obtained from ANZ on October 22, 2010, representing a portion of the \$4,500,000 USDA Guaranteed Term Loan. The term loan bears interest at 3% above the Federal Home Loan Bank of Seattle's 15-year amortizing fixed advanced rate at the time of funding (6.18% at September 30, 2017 and 2016) and is payable in monthly principal and interest installments of \$30,049 over fifteen years. Proceeds of the loan were used to reimburse the Authority for the acquisition of four top lifters and ten terminal yard contractors which are also pledged as collateral for the loan. 	<u>2,261,355</u>	<u>2,473,893</u>
	21,209,877	19,833,424
Less current portion	<u>2,350,902</u>	<u>1,788,527</u>
	<u>\$ 18,858,975</u>	<u>\$ 18,044,897</u>

As of September 30, 2017, future maturities of long-term bank debt are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018	\$ 2,350,902	\$ 1,037,373	\$ 3,388,275
2019	2,450,323	922,944	3,373,267
2020	2,568,435	804,832	3,373,267
2021	2,697,022	676,245	3,373,267
2022	2,775,376	543,292	3,318,668
2023 through 2027	8,088,173	1,098,720	9,186,893
2028	<u>279,646</u>	<u>3,020</u>	<u>282,666</u>
	<u>\$ 21,209,877</u>	<u>\$ 5,086,426</u>	<u>\$ 26,296,303</u>

Cargo throughput and wharfage revenues totaling \$35,700,804 and \$36,851,285 for the years ended September 30, 2017 and 2016, respectively, have been pledged as security for the SLE and Purchase Loans. The SLE Loan is also collateralized by the facility maintenance fee revenues which are deposited in a special fund with a balance of \$3,175,465 and \$2,708,032 as of September 30, 2017 and 2016, respectively.

The Authority is required to maintain a reserve account at the sum of principal and interest due and the aggregate amount of payments to become due in the next 90 days. The balance in the reserve account at September 30, 2017 and 2016 is \$323,160 and \$322,756, respectively.

(6) Major Customers

For the years ended September 30, 2017 and 2016, the Authority has two major shipping agency customers that collectively accounted for 59.11% and 65.43% of total operating revenues, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base.

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Notes to Financial Statements
September 30, 2017 and 2016

(7) Rental Operations

The Authority, in cooperation with the GEDA, leases space to tenants under noncancelable operating leases, with options to renew, providing for future minimum rentals. The minimum future rentals on noncancelable operating leases for the five succeeding fiscal years and thereafter, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2018	\$ 1,122,057
2019	1,122,057
2020	921,338
2021	314,544
2022	238,164
Thereafter	<u>1,706,842</u>
	\$ <u>5,425,002</u>

The Authority also leases equipment and space to tenants on a month-to-month basis.

Total equipment and lease space revenue from tenants for all rentals totaled \$8,768,740 and \$8,753,079 for the years ended September 30, 2017 and 2016, respectively.

(8) Commitments and Contingencies

Port Modernization Plan

The Port Modernization Plan (the Plan) spans a 30-year planning horizon with an estimated project cost of \$260 million and was conditionally approved in 2008 through Public Law 29-125. The Plan consists of Phases I-A and I-B with a focus on critical maintenance and repair of waterfront activities and Phase II with a focus on expansion needed to address long-term cargo growth demands of Guam and neighboring islands over the next twenty years. In 2009, the Guam Legislature approved Phases I-A and I-B of the Plan through Public Law 30-57.

In June 2008, through a Memorandum of Understanding (MOU), the Authority partnered with the Maritime Administration (MARAD) for the "Port of Guam Improvement Enterprise Program" (the Program). MARAD was designated as the lead federal agency assisting the Authority in securing funding sources to modernize its facilities and operations. Under the Program, MARAD is to provide federal oversight and coordination of projects, act as a central procurement organization, leverage federal, non-federal and private funding sources, and streamline the environmental review and permitting process. The partnership with MARAD was formalized through U.S. Public Law 110-417, National Defense Authorization Act for 2010. U.S. Public Law 110-417 also established the "Port of Guam Improvement Enterprise Fund" (the Fund), a separate account in the Treasury of the United States that will be used to receive funding from federal and non-federal sources to carry out the Program.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2017 and 2016

(8) Commitments and Contingencies, Continued

Port Modernization Plan, Continued

The Authority commenced with the Phase I-A of the Plan in 2010 and is to be funded by the following:

Appropriation from the U.S. Department of Defense (USDOD)	\$ 50,000,000
Appropriations from the USDA:	
Community Facilities Direct loan	25,000,000
Community Facilities Guaranteed Loan with ANZ	25,000,000
Guaranteed term loan with ANZ	<u>4,500,000</u>
	\$ <u>104,500,000</u>

In November 2013, the Plan was updated to provide a comprehensive view of the Authority's current condition, identify elements of continuous improvement and sustainability, and scale down the components of Phase I-A of the Plan. Changes to the Plan were signed into law through Public Law 32-155 on May 21, 2014.

Appropriation from the USDOD:

The appropriation from the USDOD is sourced from the 2010 U.S. Supplemental Appropriations Act that was signed into law in August 2010. The appropriation was transferred to the Fund on September 22, 2010 and is administered and disbursed by MARAD based on the terms of the MOU; with the approval and authorization of the Authority.

The Authority segregated the construction funded by the \$50,000,000 USDOD appropriation into three phases. In 2015, all three phases have been completed and capitalized with a total cost of \$54,000,000; \$48,200,000 of which came from the USDOD appropriation and \$5,800,000 relates to consultants' charges. A dashboard project expenditure summary was provided to the Authority by MARAD and was used as the basis for recording \$48,200,000 of capital assets. In 2016, the Authority received an updated dashboard project expenditure summary from MARAD showing a revised total cost of \$47,300,000. An adjustment of \$900,000 to capital assets was made to reflect the updated project cost. There were no significant changes in the dashboard project expenditure summary provided by MARAD as of September 30, 2017. The Authority expects to receive the close-out documents from MARAD and changes in such expenditure details, if any, will be accounted for prospectively in the financial statements.

The remaining \$2,700,000 of USDOD funds are reprogrammed for the maintenance of the capital assets and for acquisition of equipment.

Appropriations from the USDA:

The appropriations from USDA were awarded on October 22, 2010. On the same date, the Authority received \$3,500,000 of the guaranteed term loan with ANZ (see note 5). The Authority anticipates that it will not utilize the unused portion of the loan.

Due to changes in certain factors relating to the military buildup and cargo forecast, the Authority will not proceed with the \$50,000,000 Community Facilities loans.

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Notes to Financial Statements
September 30, 2017 and 2016

(8) Commitments and Contingencies, Continued

Government of Guam General Fund

In March 2011, the Authority received a \$12,250,000 invoice from the Government of Guam's Department of Administration (DOA) representing an annual assessment of \$875,000 for each of the fiscal years 1998 to 2011 pursuant to 5 GCA Chapter 22 Section 22421, Transfer of Autonomous Agency Revenues To Autonomous Agency Collections Fund. In May 2011, the Authority requested DOA further review the assessment as the Authority believes that it does not owe the entire \$12,250,000 based on previous transfers in 1994 and 1997 of \$500,000 and \$3,500,000 to the General Fund and to the Government of Guam Autonomous Agency Infrastructure Collection Fund (AAICF), respectively. The Authority also asserts that it funds certain government services provided by the Guam Customs and Quarantine Agency, the Guam Environmental Protection Agency, the Guam Police Department and the Guam Fire Department through ongoing operations at the Port; contributes to GEDA and Port's Base Realignment and Closure Commission; and, will fund the Tri-Star Pipeline and water line projects in the future. Further, the Authority understands that it is only required to transfer amounts to the AAICF when there is an operating surplus. No liability is recorded for this Government of Guam billing as of September 30, 2017 and 2016.

Lawsuit and Claims

The Authority is engaged in litigation with Guam YTK Corporation (YTK), a former tenant, involving a lease agreement dated December 14, 2001. In 2016, the case was submitted to arbitration as required by the terms of the lease agreement and in April 2016, the Arbitrators issued a decision awarding YTK \$14 million. The Authority filed an appeal in the Superior Court of Guam to deny the award to YTK. In December 2016, the Superior Court of Guam denied the Authority's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In June 2017, the Authority filed a Notice of Appeal in the Superior Court of Guam. In January 2018, the Authority filed a Motion to Dismiss in the Supreme Court of Guam.

The Authority is also a defendant in other various lawsuits and proceedings arising in the normal course of business.

While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could adversely affect the Authority's financial statements, it is the opinion of management, after consulting with its legal counsel, that the ultimate disposition of such suits and proceedings will not have a material adverse effect on the Authority's financial statements at this time, and therefore no provision has been recorded for these litigation and claims in the 2017 and 2016 financial statements.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. The remaining estimated accrued merit bonus as of September 30, 2017 and 2016 is \$54,000.

Purchase Commitments

As of September 30, 2017, the Authority has outstanding purchase orders for various equipment purchases totaling \$591,217.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2017 and 2016

(9) Crane Surcharge

Pursuant to a PUC rate order, the Authority charges a crane surcharge of \$125 for each loaded import and export container and first carriers fully loaded transshipment containers handled at the Port. In addition, the rate order required the Authority to assess a \$5 per ton surcharge on break bulk cargo, capped at \$105 per item.

The rate order also required the Authority to deposit 9.5% of surcharge revenues into a crane replacement sinking fund, which is restricted for the future acquisition of cranes, loan payments on crane debt service or extraordinary corrective maintenance events. The balance in the reserve account at September 30, 2017 and 2016 is \$4,883,632 and \$2,500,077, respectively.

The Authority recorded \$6,092,371 and \$6,284,894 of crane surcharge revenue for the years ended September 30, 2017 and 2016, respectively.

(10) Restricted Net Position

At September 30, 2017 and 2016, net position is restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Future crane acquisition, crane debt service or extraordinary crane maintenance	\$ 4,883,632	\$ 2,500,077
Debt service	323,160	322,756
Collateral for the SLE loan	<u>3,175,465</u>	<u>2,708,032</u>
	<u>\$ 8,382,257</u>	<u>\$ 5,530,865</u>

OTHER FINANCIAL INFORMATION

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Defined Benefit Plan

	2017	2016	2015	2014
Total Government of Guam net pension liability	\$ 1,368,645,126	\$ 1,436,814,230	\$ 1,246,306,754	\$ 1,303,304,636
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	\$ 43,796,523	\$ 44,375,587	\$ 37,618,961	\$ 44,444,980
PAG's proportion of the net pension liability	3.20%	3.09%	3.02%	3.41%
PAG's covered-employee payroll**	\$ 16,202,268	\$ 15,793,402	\$ 15,241,377	\$ 15,698,669
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	270.31%	280.98%	246.82%	283.11%
Plan fiduciary net position as a percentage of the total pension liability	54.62%	52.32%	56.60%	53.94%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	<u>2017</u>	<u>2016</u>
Total Government of Guam net pension liability***	\$ 229,486,687	\$ 235,799,709
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	\$ 9,759,549	\$ 10,037,574
PAG's proportion of the net pension liability	4.25%	4.26%
PAG's covered-employee payroll**	\$ 21,532,740	\$ 21,767,959
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	45.32%	46.11%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA Plan for DCRS Retirees

	<u>2017</u>	<u>2016</u>
Total Government of Guam net pension liability***	\$ 61,688,067	\$ 52,115,736
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	\$ 3,211,338	\$ 3,044,143
PAG's proportion of the net pension liability	5.21%	5.84%
PAG's covered-employee payroll**	\$ 19,004,676	\$ 20,788,290
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	16.90%	14.64%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 4,017,046	\$ 4,172,659	\$ 4,062,777	\$ 4,214,569
Contributions in relation to the statutorily required contribution	<u>3,981,412</u>	<u>4,154,190</u>	<u>4,047,929</u>	<u>4,158,400</u>
Contribution (excess) deficiency	<u>\$ 35,634</u>	<u>\$ 18,469</u>	<u>\$ 14,848</u>	<u>\$ 56,169</u>
PAG's covered-employee payroll **	<u>\$ 16,202,268</u>	<u>\$ 15,793,402</u>	<u>\$ 15,241,377</u>	<u>\$ 15,698,669</u>
Contribution as a percentage of covered-employee payroll	24.57%	26.30%	26.56%	26.49%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Schedule of Funding Progress and Actuarial Accrued Liability - Post
Employment Benefits Other than Pension (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal year ends September 30, 2017, 2016, 2011, and 2007 for the Port Authority of Guam's share of GovGuam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 13,651,000	\$ 13,651,000	0.0%	\$ 10,981,000	124.3%
October 1, 2011	\$ -	\$ 37,028,000	\$ 37,028,000	0.0%	\$ 13,878,000	266.8%
October 1, 2015	\$ -	\$ 69,129,551	\$ 69,129,551	0.0%	\$ 17,004,433	406.5%
October 1, 2016*	\$ -	\$ 73,030,372	\$ 73,030,372	0.0%	\$ 17,684,610	413.0%

* Projected

See Accompanying Independent Auditors' Report.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain terms and provisions contained in the Indenture, and is not a restatement of the Indenture, nor a full statement of all such terms and provisions summarized herein.

DEFINITIONS

The terms and definitions below are among those used in the Indenture. The definitions set forth below are intended to generally restate the corresponding definitions in the Indenture. In certain contexts, use of such terms may vary from the summary set forth herein. Because of contextual variations, the definitions set forth below are not necessarily either definitive or comprehensive and are qualified in their entirety by reference to the full and final Indenture.

“Account” means each account established and given a designation pursuant to the Indenture.

“Accreted Value” means, with respect to any particular Bonds as of any given date of calculation, an amount equal to the sum of the principal amount of such Bonds plus accrued and unpaid interest on such Bonds as of such date, but not including interest payable on a current basis at least annually.

“Act” means Chapter 10 of Title 12 of the Guam Code Annotated, as amended, and as it may from time to time hereafter be amended or supplemented.

“Additional Bonds” means bonds, notes or other obligations of the Authority payable from Revenues and ranking on a parity with the Bonds then outstanding and authorized to be issued under and pursuant to the Indenture.

“Aggregate Annual Debt Service” means, for any year, Annual Debt Service for such year on all Bonds.

“Annual Debt Service” means, for any year, and with respect to any Bonds (A) the sum of (1) the interest falling due on such Bonds then Outstanding (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times of and in amounts provided for by the Mandatory Sinking Account Payments applicable to such Term Bonds), but not including Capitalized Interest, plus (2) the principal amount of such Bonds then Outstanding that are Serial Bonds falling due by their terms, plus (3) the aggregate amount of all Mandatory Sinking Account Payments falling due with respect to such Bonds then Outstanding that are Term Bonds, plus (4) the aggregate amount of Payment Agreement Payments under Related Parity Payment Agreements then Outstanding falling due, minus (B) the aggregate amount of Payment Agreement Receipts under Related Payment Agreements then Outstanding falling due; all as calculated for said year and provided that for purposes of determining the interest payable on Variable Rate Bonds, any obligation of the Authority to make Payment Agreement Payments based on a variable rate under Parity Payment Agreements and any obligation of a Qualified Counterparty to make payments under a Payment Agreement to the Authority based on a variable rate, the following assumptions shall be made:

(i) for purposes of determining the interest payable on Variable Rate Bonds, the interest rate used in making such determination shall be (a) for periods for which such rate has been determined, the actual interest rate on such Bonds; (b) for purposes of calculations relating to issuance of additional Bonds and refunding Bonds, for any other period, a rate equal to 1.1 times the highest rate of interest borne by such Bonds, or if such Bonds were not Outstanding during any portion of any such period bonds with similar ratings and terms, during the next preceding twelve months; or (c) for any other period or purpose, the prevailing interest rate on such Bonds as of the date of such determination;

(ii) for purposes of determining the amount of Payment Agreement Payments based on a variable rate under Parity Payment Agreements, the rate used in making such determination shall be assumed to be (a) for periods for which such rate has been determined, the actual rate used to calculate such payments, (b) for purposes of calculations relating to issuance of additional Bonds and refunding Bonds, for any other

period, a rate equal to 1.1 times the highest such rate during the next preceding twelve months, and (c) for any other period or purpose, the prevailing rate being used to determine such payment obligation as of the date of such determination; in each such case without regard to the occurrence of any event that, under the provisions of such Payment Agreement, would permit or require the Authority to make payments on any basis other than such rates;

(iii) for purposes of determining the amount of payments by a Qualified Counterparty under a Payment Agreement to the Authority based on a variable rate, the rate used in making such determination shall be (a) if such Payment Agreement obligates a Qualified Counterparty to make payments to the Authority based on a variable rate that is equal to the actual rate on the Related Bonds, the actual rate on such Bonds; and (b) if such Payment Agreement obligates a Qualified Counterparty to make payments to the Authority based on a variable rate other than the actual rate on the Related Bonds (1) for periods for which such rate has been determined, the actual rate used to calculate such payments, (2) for purposes of calculations relating to issuance of additional Bonds and refunding Bonds, for any other period, a rate equal to 1.1 times the highest such rate during the next preceding twelve months, and (3) for any other period or purpose, the prevailing rate being used to determine such payment obligation as of the date of such determination; in each such case without regard to the occurrence of any event that, under the provisions of such Payment Agreement, would permit or require the Qualified Counterparty to make payments on any basis other than such rates.

“Authority” means the Port Authority of Guam, a public corporation and autonomous instrumentality of the Government of Guam, also known as the Jose D. Leon Guerrero Commercial Port, or any successor to the rights, powers, functions and duties with respect to the management, administration and control of the Port which are now or hereafter vested in the Authority.

“Authorized Officer” of the Trustee means and includes the chairperson of the board of directors, the president, every vice president, every assistant vice president, every trust officer and any other officer or assistant officer of the Trustee, other than those specifically above mentioned, designated by a certificate of an Authorized Officer of the Trustee as an Authorized Officer for purposes of the Indenture.

“Board” means the Board of Directors of the Authority established pursuant to Section 10103 of Chapter 10 of Title 12 of the Guam Code Annotated, as may be amended from time to time, or any other governing board of the Authority hereafter provided for pursuant to law.

“Bond Counsel” means an attorney or firm of attorneys designated by the Authority and having a national reputation for expertise in matters relating to governmental obligations the interest on which is excluded from gross income for federal income tax purposes under Section 103 of the Code.

“Bond Reserve Account Requirement” means, as of any particular date of calculation, with respect to any Series of Bonds, an amount equal to the amount calculated for such date as specified by the Supplemental Indenture providing for the issuance of such Series of Bonds.

“Bond Reserve Fund Requirement” means, as of any particular date of calculation, with respect to all Bonds then Outstanding, an amount equal to the aggregate amount of all Bond Reserve Account Requirements.

“Bond Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Bond Year” means, with respect to any Series, the period of twelve consecutive months ending on the day in each year specified in the Supplemental Indenture authorizing the issuance of such Series if Bonds are or will be Outstanding in such twelve-month period.

“Bondowner” or “Owner” or “Holder” means any person who shall be the registered owner of any Outstanding Bond, or, if such Outstanding Bond shall have a maturity of one year or less and shall have been issued in bearer form, shall mean the bearer of such Bond.

“Bonds” means the Port Authority of Guam Port Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture, including any Additional Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

“Business Day” means any day other than a Saturday, Sunday or other day upon which banks in the cities in which the Principal Offices of the Trustee, the Co-Trustee, each Depositary, each Paying Agent and each Credit Provider are located are authorized or required to be closed.

“Capital Improvement” means any addition, betterment, improvement or extension of the Port having costs in excess of \$100,000 and a useful life in excess of five years.

“Capital Improvement Fund” means the fund by that name established pursuant to the Indenture for the purposes provided in the Indenture.

“Capitalized Interest” means interest to be paid from the original proceeds of Bonds (including proceeds constituting accrued interest on the Bonds) and from income derived from the investment of such proceeds.

“Certificate of the Authority” means one or more instruments in writing signed by the Chairperson or by the General Manager or by any other officer of the Authority duly authorized by resolution of the Board for that purpose.

“Certified Public Accountant” means (i) any nationally recognized U.S. certified public accountant or accounting firm or (ii) any other U.S. certified public accountant or accounting firm approved by each Credit Provider, if any, not then in default of its obligations under a Credit Facility.

“Chairperson” means the chairperson of the Board.

“Code” means the Internal Revenue Code of 1986 or any similar or successor federal law.

“Construction Account” means an account by that name established pursuant to the Indenture.

“Construction Fund” means the Jose D. Leon Guerrero Commercial Port Construction Fund established pursuant to the Act.

“Consulting Engineer” means an Independent architect, engineer, consultant, or architectural, engineering, or consulting firm experienced in the design, construction, or operation of ports of the general character of the Port, having a favorable reputation with respect thereto and retained by the Authority to perform the acts and carry out the duties of a Consulting Engineer under the Indenture and, in any case, nationally recognized as being experienced in the preparation of feasibility studies for use in connection with the financing of ports.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising costs, Bond and official statement printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, the Co-Trustee, and any Depositary, Paying Agent or Registrar, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of any Credit Provider, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

“Co-Trustee” means U.S. Bank National Association, appointed by the Authority as Co-Trustee and acting as an independent trustee with the duties and powers provided in the Indenture, its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in the provisions of the Indenture relating to the Co-Trustee.

“Crane Surcharges” means and refers to one or more charges imposed by the Authority on foreign and domestic carriers on inbound, outbound and transshipment containers handled at the Port, and on breakbulk cargo designated for gantry crane loan payments, insurance, maintenance, spare parts and to the crane replacement sinking

fund of the type approved by the Board pursuant to its resolution number 2012-04A, or any amended or successor rates, fees or charge established for similar purposes.

“Credit Agreement” means any agreement between the Authority and a Credit Provider pursuant to which such Credit Provider agrees to provide a Credit Facility or pursuant to which the Authority agrees to reimburse a Credit Provider for draws or advances under or claims made against a Credit Facility.

“Credit Agreement Payments” means Credit Agreement Reimbursement Payments and Other Credit Agreement Payments.

“Credit Agreement Reimbursement Payments” means any payment obligation of the Authority pursuant to a Credit Agreement designated as such in a Supplemental Indenture.

“Credit Facility” means any letter of credit, insurance policy, surety bond or other instrument designated by a Supplemental Indenture as providing supplemental credit support for a Series of Bonds (including by substituting for a deposit in a Bond Reserve Fund).

“Credit Provider” means any person, firm or entity designated in a Supplemental Indenture as providing a Credit Facility for a Series of Bonds, and any successor thereto.

“Date of Completion” means, for any particular Project, the date on which such Project is projected to be available for use by the Authority for the purposes for which it is intended to be used.

“Debt Service Coverage Ratio” means the ratio of the sum of Net Revenues Available for Debt Service during each Fiscal Year to the Aggregate Annual Debt Service for such Fiscal Year, which is required by the Indenture to be equal to at least 1.25.

“Debt Service Fund” means the fund by that name established pursuant to the Indenture.

“Depository” means, with respect to any particular fund or account, the bank or trust company or other financial institution with similar powers designated by a Supplemental Indenture or a Statement of the Authority to act as the Depository under the Indenture for such fund or account, its successors and assigns, and any other bank or trust company or financial institution which may at any time be substituted in its place, as provided in the provisions of the Indenture relating to the Depository.

“Dissemination Agent” means, in respect of any Series of Bonds, the dissemination agent appointed pursuant to the related continuing disclosure agreement for such Bonds, or its successor.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Electronic Means” means facsimile transmission, electronic mail transmission or other generally accepted similar electronic means of commercial communication providing evidence of transmission, or a telephone communication confirmed by any other method provided for by the Indenture, and as the context shall require, shall mean and include information disseminated by way of the Electronic Municipal Market Access System (EMMA) of the Municipal Securities Rulemaking Board or any successor in accordance with then-current guidelines of the Securities and Exchange Commission.

“Event of Default” means an event of that name described in the Indenture.

“Facility Maintenance Fee” means and refers to one or more fees or charges imposed by the Authority on bills of lading, assessed for the use of Port facilities to provide funding required to be applied to the maintenance, replacements and repair of Port facilities affecting cargo movement, of the type approved by the Guam Public Utilities Commission on January 29, 2010, or any amended or successor rates, fees or charge established for similar purposes.

“Federal Securities” means (1) direct obligations of the United States of America for which the full faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America); (2) obligations for which the payment of principal and interest is guaranteed directly by the full faith and credit of the United States of America of the following types issued by the following agencies: U.S. Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership), Farmers Home Administration (certificates of beneficial ownership), Federal Financing Bank, General Services Administration (participation certificates), U.S. Maritime Administration (guaranteed Title XI financing), U.S. Department of Housing and Urban Development (project notes, local authority bonds, new communities debentures--U.S. government guaranteed debentures, or U.S. public housing notes and bonds--U.S. government guaranteed public housing notes and bonds); (3) obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (collectively, “Municipal Obligations”) (a) which are fully secured as to principal and interest and redemption premium, if any, by an escrow or trust fund consisting only of cash or obligations of the character described in clauses (1) or (2) of this definition (“Government Obligations”), which fund may be applied only to the payment of interest on such municipal obligations when due and principal of and redemption premium, if any, on such municipal obligations on the maturity date or dates thereof or the redemption date or dates specified in an irrevocable notice, as appropriate, (b) as to which the cash and the principal of and interest on the Government Obligations in such escrow or trust fund will be sufficient to pay such interest, principal and redemption premium on such date or dates, and (c) which at the time of purchase are rated in the highest rating category by each Rating Agency; (4) certificates which evidence ownership of the right to the payment of any specified portion of the principal of and interest on obligations described in clause (1) of this definition, provided that such obligations have been stripped by the Treasury of the United States of America; and (5) the interest component of Resolution Funding Corp. stripped securities, which have been stripped by request to the Federal Reserve Bank of New York, in book entry form.

“Fiduciaries” means the Trustee, the Co-Trustee, each Depositary, each Registrar and each Paying Agent.

“Financial Newspaper or Journal” means, collectively, The Wall Street Journal, The Bond Buyer or any one or more other newspapers or journals publishing financial news and selected by the Trustee, whose decision shall be final and conclusive, printed in the English language, customarily published on each business day and circulated in New York, New York, San Francisco, California, and Hagatña, Guam.

“First Supplemental Indenture” means and refers to the First Supplemental Indenture, dated as of July 1, 2018, among the Authority, the Trustee and the Co-Trustee, supplementing the Indenture, as the same may be amended from time to time.

“Fiscal Year” means the period beginning on October 1 of each year and ending on the next succeeding September 30, or such other fiscal year as may be adopted by the Authority.

“Fund” means each fund established and given a designation pursuant to the Indenture or any Supplemental Indenture.

“General Manager” means the person appointed by the Board under the Act to supervise the administration of the Authority as its chief executive officer.

“Government” means the Government of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

“Indenture” means the Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“Independent” means, when used with respect to any given person, that such person (who may be selected and paid by the Authority or the Government) (1) is in fact independent and not under domination of the Authority or the Government; (2) does not have any substantial interest, direct or indirect, with the Authority or the Government; and (3) is not connected with the Authority or the Government as an officer or employee of the Authority or the Government, but who may be regularly retained to provide services to the Authority or the Government.

“Interest Accrual Period” means, for any particular Bond, each period between successive Interest Payment Dates for such Bond, including in each case in such period the concluding Interest Payment Date but not the beginning Interest Payment Date, and treating the day prior to the date of original issuance of such Bond as if it were an Interest Payment Date for such Bond for this purpose.

“Interest Payment Date” means, for any particular Bond, each date specified as an Interest Payment Date for such Bond by the Supplemental Indenture authorizing the issuance of such Bond and, for all Bonds, all such dates.

“Investment Securities” means any of the following which at the time are legal investments under the laws of Guam for moneys held under the Indenture and then proposed to be invested therein (the Trustee and the Co-Trustee shall be entitled to rely upon a Request of the Authority directing investments under the Indenture as a determination that such investment constitutes a legal investment): (1) Federal Securities; (2) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Federal Housing Administration or Federal Home Loan Mortgage Corporation; (3) interest-bearing demand or time deposits (including certificates of deposit) which are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund; (4) obligations, including deposits, federal funds borrowings and banker’s acceptances, of any bank, or of the subsidiary lead bank of any bank holding company, which has an unsecured, uninsured and unguaranteed obligation of equivalent maturity rated at least the second highest major rating category by each Rating Agency; (5) commercial paper rated at least the second highest rating category by each Rating Agency; (6) money market funds which are (a) restricted to Federal Securities or (b) registered under the Investment Company Act of 1940 and the shares of which are registered under the Securities Act of 1933, and have a rating by S&P of AAAM-G; AAA-m; or AA-m and Moody’s of Aaa, Aa1 or Aa2; (7) repurchase agreements, the underlying securities of which are specifically designated and are obligations described in clause (1) or (2) of this definition, provided that, (a) the agreement is between the municipal entity and a dealer bank or securities firm; (b) such dealer bank or securities firm is either a primary dealers on the Federal Reserve reporting dealer list rated “A” or better by Standard & Poor’s and Moody’s, or a bank rated “A” or better by Standard & Poor’s and Moody’s; (c) the agreement provides that the securities be delivered to the Authority, the Trustee, the Co-Trustee or third party acting as agent for either (if the Trustee or Co-Trustee is supplying the collateral) before payment or on a delivery versus payment basis; (d) the securities must be valued weekly, marked-to-market at current market price plus accrued interest; (e) the value of collateral must be equal to 104% (or 105% if the collateral is comprised of obligations of Federal National Mortgage Association or Federal Home Loan Mortgage Corporation) of the amount of cash transferred to the dealer bank or security firm plus accrued interest; and (f) the Authority receives a legal opinion that the agreement is a legal investment under the laws of Guam; (8) subject to the provisions of any Supplemental Indenture, investment agreements (a) with corporations, associations or financial institutions which have general obligations, or whose holding companies have general obligations, rated at least the second highest rating category by each Rating Agency, or (b) which agreements are continuously secured by obligations described in clause (1) or (2) of this definition which have a market value (valued at least weekly) not less than 103% of the amount so invested; and (9) any other investment approved in writing by each Credit Provider then providing a Credit Facility for Bonds not then in default of its obligations thereunder. None of the Trustee, the Co-Trustee nor any Depositary shall be deemed, by entering into the Indenture, to have agreed to make the valuation required by clauses (7) and (8) of this definition, but such agreement by or on behalf of the Trustee, the Co-Trustee or a Depositary shall be a condition precedent to investment in obligations of the type described in such clauses.

“Legislature” means the Legislature of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

“Mandatory Sinking Account Payment” means, as of any date of calculation with respect to any Series of Bonds, the amount required by the Indenture and any Supplemental Indenture to be paid by the Authority on a given date for the retirement of Term Bonds of such Series.

“Maximum Annual Debt Service” means, for any particular Bonds as of any particular date of calculation, Annual Debt Service on such Bonds for the Bond Year including or commencing on or after such date for which such sum shall be largest.

“Net Revenues Available for Debt Service” means, for any particular period, (a) the sum of (i) all of the Revenues (other than Payment Agreement Receipts) received during such period, plus (ii) the sum of any Crane Surcharges, if any, applied or designated by the Authority as available and permitted to be applied to the payment of principal or interest on any Bonds or portions thereof during such period, less (b) the difference of (x) all Operation and Maintenance Expenses incurred during such period less (y) the sum of any Crane Surcharges, if any, applied or designated by the Authority as available and permitted to be applied to the payment of Operation and Maintenance Expenses thereof during such period.

“Operation and Maintenance Expenses” means such reasonable and necessary current expenses of the Authority, paid or accrued, for operation, maintenance and repair of the Port as may be determined by the Board, and the term may include at the Board’s option, except as limited by contract or otherwise limited by law, without limiting the generality of the foregoing: (a) legal and overhead expenses of the Authority directly related and reasonably allocable to the administration of the Port; (b) fidelity bond and insurance premiums appertaining to the Port or a reasonably allocable share of a premium of any blanket bond or policy pertaining to the Port; (c) contractual services, professional services, salaries, administrative expenses, and costs of labor appertaining to Port, including fees and expenses of the Trustee; (d) the costs incurred in the collection of all or any part of the Revenues; and (e) any costs of utility services furnished to the Port by the Authority or otherwise. However, the term “Operation and Maintenance Expenses” as used in the Indenture does not include: (i) any allowance for depreciation; (ii) any costs of Port capital renewals, replacements, major repairs, reconstruction, improvements, extensions or betterments; (iii) any accumulation of reserves for Port capital renewals, replacements, major repairs or reconstruction; (iv) any reserves for operation, maintenance or repair of the Port; (v) any liabilities incurred in the acquisition or improvement of any properties comprising the Port or any combination thereof; or (vi) any other legal liability not based on contract.

“Operation and Maintenance Fund” means the fund by that name established pursuant to the Indenture.

“Operation and Maintenance Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Operation and Maintenance Reserve Fund Requirement” means an amount equal to 90 days, on average, of the total Operation and Maintenance Expenses budgeted by the Authority (based on the actual number of days in such fiscal year), pursuant to the budget filed in accordance with the Indenture, for the then current Fiscal Year.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) retained by the Authority. If and to the extent required by relevant provisions of the Indenture, each Opinion of Counsel shall include the statements provided for in such provisions.

“Order of the Authority,” “Request of the Authority,” “Requisition of the Authority” or “Statement of the Authority” mean, respectively, a written order, request, requisition or statement signed by or on behalf of the Authority by the Chairperson or the General Manager or by any person (whether or not an officer of the Authority) who is specifically authorized by resolution of the Board to sign or execute such a document on behalf of the Authority.

“Other Credit Agreement Payments” means any payment obligation of the Authority pursuant to a Credit Agreement designated as such in a Supplemental Indenture.

“Outstanding”, when used as of any particular time with reference to: (A) Bonds, means (subject to the provisions of the Indenture relating to discharge of liability on Bonds) all Bonds theretofore executed, issued and delivered by the Authority under the Indenture except --(1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation, (2) Bonds for the payment or redemption of which funds or securities in the necessary amount (as set forth in the Indenture) shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture, or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to the Indenture; (B) Payment Agreements, means all Payment Agreements which have not been paid or otherwise satisfied as provided in the proceedings and instruments pursuant to which such Payment Agreements have been incurred; provided that Payment Agreements shall not be Outstanding if the Authority or the Qualified Counterparty with respect thereto is in default

thereunder; and (C) Credit Agreements, means all Credit Agreements which have not been paid or otherwise satisfied as provided in the proceedings and instruments pursuant to which such Credit Agreements have been incurred; provided that a Credit Agreement shall not be Outstanding during any period in which the Credit Provider with respect thereto is in default on its payment obligations thereunder.

“Parity Payment Agreement” means a Payment Agreement which is designated as such in a Supplemental Indenture, the payment of which constitutes a charge and lien on Revenues equal to and on a parity with the charge and lien upon the Revenues for the payment of the Bonds.

“Parity Payment Agreement Payments” means Payment Agreement Payments under a Parity Payment Agreement.

“Paying Agent” means any paying agent appointed pursuant to a Supplemental Indenture, and its successors and assigns, in accordance with the Indenture.

“Payment Agreement” means any contract entered into by the Authority with a Qualified Counterparty in connection with, or incidental to, the issuance of Bonds, or the carrying of any investment or program of investment or entering into or maintaining any agreement which secures Bonds, which the Authority determines to be necessary or appropriate to place the obligation or investment of the Authority, as represented by such Bonds, investment, program of investment or agreement and the contract or contracts, in whole or in part, on the interest rate, currency, cash-flow, or other basis desired by the Authority, including, without limitation, contracts commonly known as interest rate swap agreements or contracts providing for payments based on levels of, or changes in, interest rates, or contracts to exchange cash flows or a series of payments, or contracts, including, without limitation, interest rate floors or caps, options, put or call to hedge payment, rate, spread, or similar exposure and which is designated as such and as Related to particular Bonds in a Supplemental Indenture.

“Payment Agreement Payment Accrual Period” means, for any Payment Agreement, each period between successive Payment Agreement Payment Dates for such Payment Agreement, including in each case in such period the concluding Payment Agreement Payment Date but not the beginning Payment Agreement Payment Date, and treating the day prior to the effective date of such Payment Agreement as if it were a Payment Agreement Payment Date for such Payment Agreement for this purpose.

“Payment Agreement Payment Date” means, for any particular Payment Agreement, each date specified as a payment date in such Payment Agreement.

“Payment Agreement Payments” means amounts required to be paid periodically by the Authority to any Qualified Counterparty pursuant to a Payment Agreement, but not including (i) Termination Payments or (ii) such other payments as may be specified in a Supplemental Indenture.

“Payment Agreement Receipts” means amounts required to be paid periodically by a Qualified Counterparty to the Authority pursuant to a Payment Agreement, but not including Termination Payments.

“Port” means all works, property and facilities now owned, operated or leased by the Authority, and used by and useful to the Authority for providing a deep water commercial port known as the Jose D. Leon Guerrero Commercial Port, small boat marinas, and all related facilities of Guam located on Cabras Island, Apra Harbor, Agana Boat Basin, and all other Government of Guam small boat marinas, comprising all harbor works and facilities of the Authority, including all channels, waterways, basins seawalls, docks, piers, land areas, utilities, warehouses, cargo handling machinery and equipment, tugboats, barges, fire boats and other works, properties, structures or other facilities in or upon or pertaining to the lands, improvements and waters of the Authority used or useful for, or necessary for or incidental to, the development and operation of the Jose D. Leon Guerrero Commercial Port, small boat marinas, and all related facilities of Guam located on Cabras Island, Apra Harbor, Agana Boat Basin, and all other Government of Guam small boat marinas, together with all improvements to such works, property and facilities or any part thereof hereafter acquired or constructed by the Authority, now or hereafter existing, owned and/or operated by the Authority or its contractors, agents or subcontractors.

“Port Consultant” means an Independent person or firm or corporation who shall have a widely known and favorable reputation for special skill, knowledge and experience in methods of the development, operation and management of ports of the approximate size and character as the Port. The Consulting Engineer or an Independent Certified Public Accountant may be appointed as a Port Consultant, but the Authority is not limited in such selection to such persons or entities.

“Principal Office” means, with respect to the Trustee, the Co-Trustee and any other Fiduciary, the office at the respective address set forth in the Indenture or at such other address as the respective party may have designated for such purpose. The Principal Office of any Credit Provider shall be as specified by such Credit Provider pursuant to its Credit Facility or Credit Agreement.

“Principal Payment Period” means, for any particular Bond, each period so designated by the Supplemental Indenture authorizing the issuance of such Bond.

“Prior ANZ Loan” means that certain loan from ANZ Guam, Inc. to the Authority in the original aggregate principal amount of \$12,000,000 made on or about December 20, 2012, for the purpose of acquiring used cranes known as the Port of Los Angeles or “POLA” cranes and gantry crane 3.

“Prior Bank of Guam Loan” means that certain loan from the Bank of Guam, a Guam banking corporation, as lender, to the Authority in the original aggregate principal amount of \$10,000,000 made on or about April 3, 2014, for the purposes of funding the costs of service life extension repairs to certain berths and wharfs at the Port, software acquisition and acquisition of a container top-lifter.

“Prior USDA Loan” means that certain loan from the United States Department of Agriculture to the Authority in the original aggregate principal amount of \$2,000,000 made on or about July 15, 2015, for the purposes of funding the costs of top lifters and other cargo handling equipment.

“Project” means any particular additions, enlargements, betterments, extensions and other improvements to or related to, and the equipping of, the Port, including, without limitation, the acquisition of land and furnishings therefor or the payment of any claims or judgments relating thereto, as specified and described by the Supplemental Indenture authorizing issuance of the first Series of Bonds for such Project, and as such specification and description may be modified in accordance with the Indenture.

“Project Costs” means, with respect to any given Project, all costs which are chargeable to the capital account of such Project, including, but not limited to, the following: (1) costs of the Authority and all contractors for land (including franchises, licenses or other interests in land), labor, materials, machinery, equipment and furnishings in connection with the acquisition, construction, reconstruction, installation and equipping of the Project or otherwise attributable to the Project; (2) the cost of relocation and installation of utilities, environmental cleanup and noise abatement; (3) the cost of contract bonds and insurance of all kinds that may be required or necessary during the construction of the Project; (4) all costs of architectural and engineering services, including the costs of test borings, surveys, estimates, plans and specifications and preliminary investigation therefor, and for inspecting and supervising construction, as well as for the performance of all other duties required by or consequent upon the proper construction of the Project; (5) relocation costs and any claims, awards or judgments relating to the Project; (6) Capitalized Interest; and (7) all amounts required to reimburse the Authority for advances made by it for any of the above items or for any other costs incurred and for work done, whether before or after the date of the Indenture, which are properly chargeable to the Project.

“Public Marina Revenues” means all revenues derived by the Authority from the ownership, management and/or operation of the marinas commonly known as Gregorio D. Perez Marina and Agat Marina.

“Qualified Counterparty” means the party, other than the Authority, to a Payment Agreement; provided that any such party must satisfy the following requirements: (1) either (a) the obligations of such party under the Payment Agreement (or obligations of such type) must be rated in one of the three highest rating categories of each of the Rating Agencies then rating the Bonds (without regard to any gradations within a rating category), or (b) the obligations of such party under the Payment Agreement are guaranteed by a bond insurer or other institution, in each

case the obligations of such type of which must be rated in one of the three highest rating categories of each of the Rating Agencies then rating the Bonds (without regard to any gradations within a rating category); and (2) such party must be otherwise qualified to act as the other party to a Payment Agreement with the Authority under any applicable laws.

“Rating Agency” means, as of any given date, each nationally recognized securities rating agency designated by the Indenture or any Supplemental Indenture as a Rating Agency under the Indenture and then rating any Series of Bonds.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“Record Date” means, for any particular payment of principal of or interest or premium on particular Bonds, each date specified as a Record Date for such Bonds by the Supplemental Indenture authorizing the issuance of such Bonds.

“Redemption Price” means, with respect to any Bond (or portion thereof if less than all of a Bond is to be redeemed) the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Registrar” means any registrar appointed pursuant to a Supplemental Indenture, and its successors and assigns as provided in the Indenture.

“Related” means, with respect to any particular Payment Agreement, having been designated as such with respect to any particular Bonds pursuant to a Supplemental Indenture.

“Renewal and Replacement Costs” means the costs of Port capital renewals, replacements, major repairs or reconstruction.

“Renewal and Replacement Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Renewal and Replacement Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the greater of (i) an amount equivalent to one 30-day month, calculated on an average basis based on the actual number of days in such fiscal year, of the Operation and Maintenance Expenses budgeted by the Authority pursuant to the budget (or revised budget, as the case may be), filed in accordance with the Indenture, for the then current Fiscal Year, or (ii) \$3,000,000.

“Responsible Officer” means the General Manager or any Deputy General Manager of the Authority, or such other person employed by the Board under the Act and having direct supervisory or other oversight responsibility over the matter in issue.

“Revenue Fund” means the Jose D. Leon Guerrero Commercial Port Revenue Fund established pursuant to the Act.

“Revenues” means all gross income and other amounts received or receivable by the Authority as revenues of any kind from the ownership or operation of any part of the Port or the supplying and furnishing of services and commodities thereof, including all rates, rentals, tolls, fees and charges assessable and chargeable by the Authority in respect to dockage, wharfage, demurrage and rates appertaining to the system or derived from the rental of all or part of the system or from the sale or rental of any commodities or goods in connection with the Port, all amounts received by the Authority pursuant to any Payment Agreement, and all proceeds of insurance or grants covering business interruption loss (and related losses and expenses relating to the Port, together with all interest, profits or other income derived from the investment of amounts in the Revenue Fund, together with any additional amounts designated by the Authority as “Revenues” pursuant to a Supplemental Indenture, but not including: (1) amounts received as insurance proceeds (except as provided above) or from the sale, transfer or other disposition of, or upon the taking by or under the threat of eminent domain of, all or any part of the Port (which moneys shall be received and disposed of pursuant

to the relevant provision of the Indenture), (2) proceeds from any securities issued by the Authority or proceeds from loans obtained by the Authority, (3) the proceeds of any court or arbitration award or settlement in lieu thereof received by the Authority, (4) amounts received by the Authority as gifts or as grants (except as provided above), whether restricted or unrestricted; (5) amounts derived from any Special Facility and which are pledged or assigned as security for the payment of indebtedness incurred to finance such Special Facility; (6) Crane Surcharges, Facility Maintenance Fees and Public Marina Revenues; and (7) other amounts (except as provided above), the use of which is restricted by the donor or grantor.

“Serial Bonds” means Bonds designated as Serial Bonds in the Supplemental Indenture providing for the issuance of such Series and for which no Mandatory Sinking Account Payments are provided.

“Series” or “Series of Bonds” means and refers to all Bonds of like designation and described as such in a Supplemental Indenture authenticated and delivered on original issuance at the same time pursuant to the Indenture, and any Bonds thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Indenture.

“Series 2018 Bond Reserve Account” means the account by such name established with respect to the 2018 Bonds within the Bond Reserve Fund pursuant to the First Supplemental Indenture.

“Series 2018 Project” means, with respect to the 2018 Bonds, (1) the construction, improvements or rehabilitation of (a) the “H” wharf and access road, (b) a new administration building, (c) one or more waterlines, (d) the Equipment Maintenance & Repair Building, (e) Warehouse 1 and (f) Golf Pier, (2) refunding the Prior ANZ Loan, the Prior Bank of Guam Loan and the Prior USDA Loan, (3) paying Costs of Issuance in respect of the Series 2018 Bonds, (4) paying Capitalized Interest and (5) making a deposit to the Series 2018 Bond Reserve Account.

“Series 2018 Serial Bonds” means the 2018 Bonds designated as Serial Bonds by the First Supplemental Indenture, and for which no Mandatory Sinking Account Payments are provided.

“Series 2018 Term Bonds” means the 2018 Bonds designated as Term Bonds by the First Supplemental Indenture, and for which Mandatory Sinking Account Payments are provided.

“Sinking Accounts” means any special account or accounts established by any Supplemental Indenture or Indentures in the Debt Service Fund for the payment of Term Bonds.

“Special Facility” or “Special Facilities” means any property, real or personal, incident or related to the Port, which is financed through the issuance of Special Facility Bonds and is subject to the provisions of the Indenture.

“Special Facility Bonds” means bonds or other obligations of the Authority issued in accordance with the provisions of the Indenture to finance Special Facilities, which are payable from and secured by revenues derived from the ownership and/or operation of such Special Facilities.

“Special Facility Lease” shall have the meaning specified in the Indenture.

“Subordinate Securities” means any obligations of the Authority payable from the Subordinate Securities Fund and having a lien, if any, on Revenues subordinate to the pledge and lien of the Indenture securing the payment of the Bonds.

“Subordinate Securities Fund” means the fund by that name established pursuant to the Indenture for the purposes provided in the Indenture.

“Supplemental Indenture” means any indenture duly authorized under and in compliance with the Act, entered into by and between the Authority, the Trustee and the Co-Trustee and accepted by each Depositary, Paying Agent and Registrar the duties of which are affected thereby, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means a Certificate of the Authority concerning the calculation of any amount to be paid to the United States of America pursuant to Section 148(f) of the Code and any other matters relating to the exclusion of interest on Bonds from gross income for federal income tax purposes.

“Term Bonds” means Bonds designated as Term Bonds in the Supplemental Indenture providing for the issuance of such Series and which are payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Termination Payments” means amounts required to be paid by the Authority or a Qualified Counterparty pursuant to a Payment Agreement in connection with a termination of all or any portion thereof.

“Trustee” means Bank of Guam, appointed by the Authority as Trustee in the Indenture and acting as an independent trustee with the duties and powers provided in the Indenture, its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in the Indenture.

“Variable Rate Bonds” means Bonds which bear interest at a variable rate of interest.

“Working Capital Reserve Account” means the account by that name established within the Capital Improvement Fund pursuant to the provisions of the Indenture for the purposes provided in the Indenture.

THE BONDS

Authorization of Bonds

Bonds may be issued under the Indenture from time to time in order to obtain funds for the purposes set forth in the Indenture and in the Act, including acquiring, constructing, improving, equipping, maintaining, repairing, renewing, replacing, reconstructing or insuring the Port, or any part thereof, or for the purpose of refunding any such Bonds or any other prior obligations of the Authority. The aggregate principal amount of Bonds which may be issued under the Indenture is not limited (subject, however, to the right of the Authority, which is reserved under the Indenture, to limit or restrict the aggregate principal amount of Bonds which may at any time be issued and Outstanding under the Indenture) and consists or may consist of one or more Series of varying denominations, dates, maturities, interest rates and other provisions, all issued and to be issued pursuant to the Indenture and the Act, subject to the limitations on the issuance of Bonds contained in the Indenture. The Bonds are designated as the “Port Authority of Guam Port Revenue Bonds.” The Bonds may be issued in such Series as from time to time shall be established and authorized by the Authority by Supplemental Indenture, subject to the provisions and conditions contained in the Indenture.

Execution of Bonds

The Bonds shall be in substantially the form set forth in the Indenture, and shall be designated as provided therein, with such necessary and appropriate modifications as shall be provided in the related Supplemental Indenture setting forth the terms of such Bonds, and shall be executed on behalf of the Authority by the manual or facsimile signature of the Chairperson, and countersigned by the manual or facsimile signature of the Secretary or any other Responsible Officer of the Authority designated by resolution thereof, and may be sealed with an imprinted or facsimile seal of the Authority. The Bonds shall then be delivered to the applicable Registrar for authentication by it. In case any of the officers who shall have signed or countersigned any of the Bonds shall cease to be such officer or officers before the Bonds so signed or countersigned shall have been authenticated or delivered by the Registrar or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though those who signed and countersigned the same had continued to be such officers of the Authority, and also any Bond may be signed and countersigned on behalf of the Authority by such persons as on the actual date of the execution of such Bond shall be the proper officers of the Authority although at the nominal date of such Bond any such person shall not have been such officer of the Authority. Each Bond shall contain a recital on its face stating that neither the payment of the principal or any part thereof, nor of any interest thereon, is a debt, liability or obligation of the Government of Guam.

Except as may be provided in any Supplemental Indenture, only such of the Bonds as shall bear thereon a certificate of authentication in the form recited in the Indenture, manually executed by the applicable Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of the Registrar shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered under the Indenture and are entitled to the benefits of the Indenture.

Transfer of Bonds

Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the Indenture, by the person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the applicable Registrar.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the applicable Registrar shall authenticate and deliver a new Bond or Bonds of the same Series and maturity, for a like aggregate principal amount of authorized denominations. The Registrar shall require the payment by any Bondowner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

No transfer or exchange of any Bond of any Series shall be required during the period established by the applicable Registrar for the selection of Bonds of such Series for redemption or at any time after selection of such Bond for redemption.

ISSUANCE OF BONDS; ISSUANCE OF A SERIES OF BONDS; PARITY PAYMENT AGREEMENTS

Issuance of Bonds

At any time after the execution of the Indenture and one or more appropriate Supplemental Indentures, the Authority may sell and execute one or more Series of Bonds and the Registrar for each such Series of Bonds is required to authenticate and, upon the Order of the Authority, deliver such Series of Bonds. The proceeds received by the Authority from the sale of each Series of Bonds are required to be deposited with the Trustee or the Co-Trustee, who shall forthwith set aside such proceeds in such respective funds and accounts as are directed by a Request of the Authority, subject to the requirements of the Indenture.

Establishment and Application of Construction Accounts; Modification of Projects

With respect to each Project or Series, as determined by the Authority, the Depositary for the Construction Account for such Project or Series shall establish within the Construction Fund and maintain and hold in trust under the Indenture a separate account designated as the “_____ Construction Account” (inserting therein the Project or Series designation). Amounts in each Construction Account shall be used and withdrawn, as provided in the Indenture, solely for the payment of Project Costs of such Project (or of the Project or Projects for which such Series is being issued), including by (1) direct payment, (2) payment of any debt obligations issued by the Authority, or repayment of any advances made from any source, to finance temporarily such Project Costs, (3) payment of Capitalized Interest accruing on Bonds issued for such Project as specified in the Supplemental Indenture relating thereto, and (4) payment of Costs of Issuance of such Bonds. A Depositary shall disburse moneys in a Construction Account only upon Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper and lawful charge against such account.

The Authority may modify the specifications or description of any Project or Projects by filing with the Trustee and each Depositary for each Construction Account for such Project or Projects a Certificate of the Authority describing such modification, together with a written report of a Port Consultant to the effect that such modification will have no material adverse effect on the Authority’s ability to comply with the rate covenant contained in the Indenture and an opinion of Bond Counsel to the effect that such modification and the use of amounts in such Construction Accounts for such modified Project or Projects will not adversely affect the exclusion, if any, of interest on any Bonds from gross income for federal income tax purposes.

Upon receipt of a Certificate of the Authority that amounts in any Construction Account are no longer required for the purpose of such account, said amounts shall be transferred to the Capital Improvement Fund or any other fund or account designated by the Authority in such Certificate; provided, however, that any such transfer shall be subject to receipt by the Trustee of an opinion of Bond Counsel to the effect that such transfer and the use of such amounts for the purposes intended by the Authority after such transfer will not adversely affect the exclusion, if any, of interest on any Bonds from gross income for federal income tax purposes.

All interest and other profits derived from the investment of moneys in each Construction Account shall be retained therein.

Establishment and Application of Series 2018 Construction Account

Pursuant to the 2018 Supplemental Indenture, the Trustee is required to establish within the Construction Fund a separate account (the "Series 2018 Construction Account") for the deposit of such proceeds from the sale of the Series 2018 Bonds to be used and withdrawn, as provided in the Indenture, for the payment of Project Costs of the Series 2018 Project, related Costs of Issuance and related Capitalized Interest.

Issuance of Additional Series of Bonds

In addition to the initial Series of Bonds, the Authority may by Supplemental Indenture establish one or more other Series of Bonds payable from Revenues on a parity with the initial Series of Bonds and Parity Payment Agreements and secured by a lien upon and pledge of Revenues equal to the lien and pledge securing the initial Series of Bonds and Parity Payment Agreements, and the Authority may issue Bonds of any Series so established, in such principal amount and for such lawful purpose or purposes (including refunding of any Bonds issued under the Indenture and then Outstanding) as shall be specified by the Authority in said Supplemental Indenture, but only upon compliance by the Authority with the relevant provisions of the Indenture and subject to the following specific conditions, which are conditions precedent to the issuance of any such additional Series of Bonds: (1) no Event of Default shall have occurred and then be continuing; (2) the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall specify the purposes for which such Series is being issued, which shall be one or more of the following (a) to provide moneys for deposit into a Construction Account and withdrawal therefrom in accordance with law for purposes other than the refunding of Bonds, or (b) to refund all or part of the Bonds of any one or more Series then Outstanding, by depositing with the Trustee, in trust, moneys or noncallable Federal Securities in the necessary amount to discharge all liability of the Authority with respect to the Bonds to be refunded as provided in the Indenture and to make any payment necessary or desirable in connection with the termination of any Related Payment Agreement in connection with such refunding; (3) the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require that the amount in the Bond Reserve Fund be increased, if and to the extent necessary, to an amount at least equal to the Bond Reserve Fund Requirement for such Series. Said deposit may be made from such proceeds or any other source, as provided in the Indenture; (4) the aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by the Indenture; and (5) the representations and estimates set forth in the certificates and written reports required by the Indenture for such Series shall have been made by the parties required to give such certificates and written reports.

Additional Parity Payment Agreements

The Authority may enter into Parity Payment Agreements payable from Revenues on a parity with the Bonds and other Parity Payment Agreements and secured by a lien upon and pledge of Revenues equal to the lien and pledge securing the Bonds and other Parity Payment Agreements, but only upon compliance by the Authority with the relevant provisions of the Indenture, and subject to the following specific conditions, which are conditions precedent to the entering into by the Authority of any Parity Payment Agreement: (1) no Event of Default shall have occurred and then be continuing; (2) the representations and estimates set forth in the certificates and written reports required by the Indenture shall have been made by the parties required to give such certificates and written reports; and (3) the Authority, the Trustee and the Co-Trustee shall have executed and delivered a Supplemental Indenture designating such agreement as a Parity Payment Agreement and the Bonds to which such Parity Payment Agreement is Related.

Other Payment Agreements

In addition to Parity Payment Agreements, the Authority may enter into Payment Agreements payable from Revenues after and subordinate to the payment from Revenues of payments with respect to the Bonds and Parity Payment Agreements, but only upon compliance by the Authority with any applicable provisions of the Indenture and any such agreement shall constitute a Payment Agreement upon execution and delivery by the Authority, the Trustee and the Co-Trustee of a Supplemental Indenture designating such agreement as a Payment Agreement and the Bonds to which such Payment Agreement is Related.

Proceedings for the Issuance of a Series of Bonds; Parity Payment Agreements.

Whenever the Authority shall determine to issue a Series of Bonds, the Authority shall execute and deliver a Supplemental Indenture providing for the issuance of such Series of Bonds and specifying the terms and conditions of such Series of Bonds, including the following: (1) the authorized principal amount of such Series; (2) the purpose or purposes for which such Series is being issued and, if such purpose is the deposit of moneys in a Construction Account, the Project or Projects for which such Series is being issued (including any appropriate modifications to any previously specified or described Project or Projects); (3) the amount of the Bond Reserve Fund Requirement upon the issuance of such Series; (4) the amount to be deposited (or otherwise available) in the Bond Reserve Fund upon the issuance of such Series, the source or sources of such amount (which may be proceeds of such Series, a Credit Facility or other amounts available for such purpose); (5) the amount, if any, to be deposited in the applicable Construction Account, if any, upon the issuance of such Series, and the source or sources of such deposit (which may be the proceeds of such Series or other amounts available for such purpose); (6) the amounts, if any, to be reserved within the applicable Construction Account to pay Costs of Issuance and Capitalized Interest of such Series and the source or sources of such amounts (which may be the proceeds of such Series or other amounts available for such purpose); (7) the amount, if any, to be deposited in the Debt Service Fund as accrued interest upon the issuance of such Series; (8) the Credit Facility and Credit Provider, if any, for such Series and any special provisions not inconsistent with the terms of the Indenture relating to such Credit Facility and designating any Credit Agreement Payments with respect thereto; (9) the Related Payment Agreement, if any, and Qualified Counterparty with respect thereto and any provisions not inconsistent with the terms of the Indenture relating to such Payment Agreement; (10) the appointment of the Registrar and any Paying Agents for such Series and, if necessary, any Depositary for any Funds or Accounts relating to such Series; (11) the form, title and designation of, and the manner of numbering and lettering, Bonds of such Series; (12) the denomination or denominations of Bonds of such Series; (13) the date or dates of maturity and Principal Payment Periods of Bonds of such Series and the manner of payment of principal of such Bonds; (14) the rate or rates of interest or the manner of determining such rate or rates borne by the Bonds of such Series and the Record Dates and Interest Payment Dates for such Bonds; (15) the Bonds of such Series which are Serial Bonds (if any) and the Bonds of such Series which are Term Bonds (if any); (16) the terms of redemption, if any, of Bonds of such Series; (17) the date and amount of each Mandatory Sinking Account Payment (if any) required to be paid by the Authority for the retirement of Term Bonds of such Series; (18) the designation of any accounts to be established pursuant to the Indenture and any other accounts deemed advisable by the Authority; (19) any tax or other covenants which, in the judgment of the Authority, are designed to insure that interest on such Series of Bonds will be excludable from gross income for federal income tax purposes and which are not inconsistent with the provisions of the Indenture; provided, however, that the Authority may, in its sole and absolute discretion, determine in connection with the authorization of a Series of Bonds that it will not make any such covenants because interest on such Series is not intended to be excludable from gross income for federal income tax purposes; and (20) any other provisions deemed advisable by the Authority, not in conflict with or in substitution for the provisions of the Indenture (except as expressly permitted in the Indenture).

Before any Series of Bonds (other than the Series 2018 Bonds) shall be issued and delivered and before any Parity Payment Agreements are entered into, the Authority shall file the following documents with the Trustee:

(a) If and to the extent that an additional Series of Bonds is being issued, an Opinion of Counsel setting forth (i) that such counsel has examined the Supplemental Indenture; (ii) that the execution and delivery of the additional Series of Bonds have been duly authorized by the Authority; and (iii) that said additional Series of Bonds, when duly executed by the Authority and, if required, authenticated and delivered by the Registrar for such Bonds, will be valid and binding special obligations of the Authority, payable from Revenues as provided in the Indenture;

(b) A Certificate of the Authority that no Event of Default has occurred and is then continuing; and

(c) (i) If and to the extent that an additional Series of Bonds is being issued for the purpose of providing moneys for deposit in a Construction Account, the following certificates:

(A) A certificate of a Consulting Engineer setting forth (I) the projected Date of Completion for the Project or Projects for which such Series of Bonds is being issued and for any other uncompleted Projects, and (II) an estimate of the cost of construction of such Projects;

(B) A written report of a Consulting Engineer setting forth for each Fiscal Year from the then current Fiscal Year through the later of (I) the first Fiscal Year commencing at least five years after the date of original issuance of such additional Series, or (II) the first Fiscal Year commencing at least three years after the Date of Completion projected by the Consulting Engineer pursuant to subparagraph (A) above, estimates of Revenues, Operation and Maintenance Expenses and Net Revenues Available for Debt Service; and

(C) A Certificate of the Authority (I) setting forth (a) the estimates of Revenues, Operation and Maintenance Expenses and Net Revenues Available for Debt Service, as set forth in the written report of a Consulting Engineer pursuant to subparagraph (B) above, for each of the Fiscal Years covered by such report, and (b) the Aggregate Annual Debt Service and Capitalized Interest for each of such Fiscal Years, including Annual Debt Service and Capitalized Interest on all future Series of Bonds, if any, which such Certificate of the Authority shall estimate (based on the estimate of the Consulting Engineer of the cost of construction of such Projects) are required to complete payment of the cost of construction of such Projects, and (II) demonstrating that for each of such Fiscal Years (a) Revenues are projected to be at least equal to the aggregate amount of all transfers required to be made to the Operations and Maintenance Fund, the Debt Service Fund, the Bond Reserve Fund, the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund for such Fiscal Year and, to the extent applicable, otherwise required to provide for the payment of all obligations of the Authority to be paid from Revenues, and (b) Net Revenues Available for Debt Service are projected to be at least equal to 1.25 times Aggregate Annual Debt Service.

(ii) In lieu of the certificates and reports described above in subparagraphs (i)(A), (B) and (C) above, the Authority may deliver to the Trustee a Certificate of the Authority to the effect that for the last complete Fiscal Year or any period of 12 consecutive calendar months out of the 18 calendar months next preceding the original issuance of such Series of Bonds, Net Revenues Available for Debt Service for such Fiscal Year or 12-month period equaled at least 1.25 times the Maximum Annual Debt Service on all Bonds then Outstanding plus the Series of Bonds being issued.

(iii) In addition, a Series of Bonds may be issued for the sole purpose of depositing in a Construction Account the amounts necessary to complete any one or more Projects without filing with the Trustee of the certificates and reports described in subparagraphs (i)(B) and (C), if such certificates and reports demonstrating compliance with such subparagraphs were filed in connection with the issuance of the prior Series of Bonds for each of such Projects and if the principal amount of such Bonds to be issued for completion purposes does not exceed ten percent (10%) of the principal amount of Bonds previously issued for and allocable to such Projects.

If and to the extent that an additional Series of Bonds is being issued for the purpose of refunding Bonds, either (i) a certificate of the Authority that Aggregate Annual Debt Service for each Fiscal Year thereafter will be less than or equal to Aggregate Annual Debt Service for each such Fiscal Year in the absence of such refunding, or (ii) the certificates and reports described in paragraphs (A) (if any one or more of the Projects for which the Bonds being refunded is not then completed), (B) and (C) above; provided that in lieu of the certificates and reports described in paragraphs (A), (B) and (C) above, the Authority may deliver to the Trustee the certificate described in paragraph (ii) above.

If and to the extent that a Parity Payment Agreement, other than a Parity Payment Agreement all payments pursuant to which have been taken into account for purposes of determining that the requirements have been satisfied with respect to the issuance of the Related Bonds, is being entered into, either (i) a certificate of an Independent

Certified Public Accountant that Aggregate Annual Debt Service for each Fiscal Year thereafter will be less than or equal to Aggregate Annual Debt Service for each such Fiscal Year in the absence of such Parity Payment Agreement, or (ii) the certificates and reports described in paragraphs (B) and (C) above, in each case treating such Payment Agreement as in effect for purposes of any calculations; provided that in lieu of the certificates and reports described in said paragraphs (B) and (C), the Authority may deliver to the Trustee the certificate described in paragraph (ii) above, treating such Payment Agreement as in effect for purposes of any calculations.

In connection with the issuance of an additional Series of Bonds, upon the delivery to the Trustee of the foregoing instruments, the applicable Registrar is required to authenticate and deliver said additional Series of Bonds, in the aggregate principal amount specified in such Supplemental Indenture, to, or upon the Order of, the Authority, when such additional Series of Bonds shall have been presented to it for that purpose.

Validity of Bonds

The validity of the authorization and issuance of the Bonds shall not be dependent on or affected in any way by any proceedings taken by the Authority for the improvement of the Port, or by any contracts made by the Authority in connection therewith, or the failure to construct the Port or any part thereof. The recital contained in the Bonds that the same are regularly issued pursuant to the Act shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

REDEMPTION OF BONDS

Terms of Redemption

Any Series of Bonds may be made subject to redemption prior to maturity, as a whole or in part, at such time or times, and upon payment of the principal amount thereof plus such premium or premiums, if any, as may be determined by the Authority at the time such Series is authorized and as shall be specified in respect of any Series as set forth in the Supplemental Indenture authorizing such Series; provided, however, that such Supplemental Indenture shall provide that the Authority shall have the right, on any date, to redeem the Bonds of any such Series, as a whole, or in part so that the reduction in Annual Debt Service for the Bonds of such Series for each Bond Year after such redemption shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the Port or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the Port, under the circumstances and upon the conditions and terms set forth in the provisions of the Indenture relating to eminent domain proceeds, at the principal amount thereof plus interest accrued thereon, without premium.

Selection of Bonds for Redemption. For purposes of selecting Bonds for redemption, Bonds shall be deemed to be composed of portions equal to their respective minimum authorized denomination, and any such portion may be separately redeemed. The applicable Registrar shall promptly notify the Authority, the Trustee and the Co-Trustee in writing of the Bonds or portions thereof selected for redemption. Notwithstanding the foregoing, a Supplemental Indenture providing for the issuance of Additional Bonds may specify any other method or order of selection of such Additional Bonds for redemption.

Notice of Redemption. A copy of any notice of redemption shall be sent by first class mail to each Owner of \$1,000,000 or more in aggregate principal amount of Bonds to be redeemed and to each of the Fiduciaries, each of the Credit Providers, the Securities Depositories (as defined in the Indenture) and two or more Information Services (as defined in the Indenture); provided, however, that failure to give notice pursuant to this sentence by certified mail to any Bondowners, to any Fiduciaries, to any Credit Providers or to any Securities Depositories or Information Services, or the insufficiency of any such notices, shall not affect the sufficiency of the proceedings for redemption of any Bonds. A second notice shall be sent by first class mail to the registered owner of any Bond which has been called for redemption in whole or in part, and is not surrendered for payment within 60 days after the date fixed for redemption; provided, however, that failure to send any such second notice, or any deficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption of any Bonds.

Partial Redemption. Upon surrender of any Bond redeemed in part only, the Authority shall execute and the applicable Registrar shall authenticate and deliver to the registered owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations, and of the same Series, maturity and tenor, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys being held by the Trustee, the Co-Trustee or Paying Agents for payment of the Redemption Price of, and interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption on the redemption date designated in such notice, such Bonds (or such portions) shall become due and payable at the Redemption Price specified in such notice plus interest accrued thereon to the date fixed for redemption, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

All Bonds purchased or redeemed pursuant to the provisions of the Indenture shall be cancelled upon surrender thereof and delivered to or upon the Order of the Authority.

REVENUES AND FUNDS

All moneys at any time deposited with the Trustee, the Co-Trustee or any Depositary, as the case may be, are required to be held by the Trustee, the Co-Trustee or such Depositary, as the case may be, in trust for the benefit of the Owners at any time of the Bonds (and, to the extent any Credit Agreement Payment is due and payable, for the benefit of the applicable Credit Provider), and the Authority is to have no beneficial right or interest in any of such moneys, except as provided in the Indenture. All Revenues and other moneys so deposited shall be held, disbursed, allocated and applied only as provided in the Indenture.

Revenue Fund

The Authority shall deposit all Revenues upon the receipt thereof in the Revenue Fund. Subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Indenture, the Trustee and the Depositary shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, the Co-Trustee and the Depositary for the Revenue Fund and shall forthwith be paid by the Authority to such Depositary.

Rebate Fund, 2018 Rebate Account

If and to the extent required by the Supplemental Indenture providing for the issuance of a Series of Bonds, the Trustee shall establish and maintain within the Rebate Fund a separate Rebate Account for such Series. There shall be deposited in such Rebate Account from amounts in the Operation and Maintenance Fund or other lawfully available moneys such amounts as are required to be deposited therein pursuant to the Tax Certificate with respect to such Series of Bonds. All money at any time deposited in a Rebate Account shall be held by the Trustee in trust, and shall be governed exclusively by this Section and by the Tax Certificate with respect to such Series of Bonds.

Pursuant to the First Supplemental Indenture, the Trustee, as Depositary for the Revenue Fund, shall establish and maintain within the Rebate Fund a separate subaccount designated as the "2018 Rebate Account." There shall be deposited in the 2018 Rebate Account from amounts in the Operation and Maintenance Fund or other lawfully available moneys such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the 2018 Rebate Account is required to be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement for the 2018 Tax-Exempt Bonds (as specified in the Tax Certificate), for payment to the United States of America, and the United States of America is granted a first lien on such money until such payment. All amounts required to be deposited into or on deposit in the 2018 Rebate Account will be governed exclusively by the Indenture and by the Tax Certificate. In the event that the amount in the 2018 Rebate Account exceeds the Rebate Requirement for the 2018 Bonds, upon the Request of the Authority, the Trustee is required to transfer the excess from the 2018 Rebate Account to the Revenue Fund.

Notwithstanding any provisions of the Indenture relating to the Rebate Fund or Rebate Accounts, if the Authority shall provide to the Trustee an opinion of Bond Counsel that any specified action required under such provisions is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on a Series of Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of the Indenture relating to the Rebate Fund, and, notwithstanding the requirements of the Indenture for modifications to the Indenture, the covenants under the Indenture shall be deemed to be modified to that extent.

Application of Debt Service Fund

Amounts in the Debt Service Fund shall be withdrawn by the Trustee and transferred to the Co-Trustee solely for the purpose of (1) paying interest on Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture), (2) paying the principal of Serial Bonds when due and payable, (3) purchasing or redeeming or paying at maturity Term Bonds as provided in the Indenture, (4) paying Parity Payment Agreement Payments due and payable, and (5) paying Credit Agreement Reimbursement Payments due and payable. Subject to the provisions of the next paragraph, on each Mandatory Sinking Account Payment date, the Co-Trustee shall apply the Mandatory Sinking Account Payment or Payments required on that date to the redemption (or payment at maturity, as the case may be) of the applicable Term Bonds upon the notice and in the manner provided in the Indenture. At any time prior to giving such notice of such redemption, the Trustee or the Co-Trustee, upon the Request of the Authority, shall apply moneys in the Debt Service Fund, in an amount not in excess of such Mandatory Sinking Account Payment, to the purchase of the applicable Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges) as are specified in such Request, except that the purchase price (excluding accrued interest) shall not exceed the price that would be payable for such Bonds upon redemption by application of such Mandatory Sinking Account Payment.

If (1) during the twelve-month period immediately preceding a Mandatory Sinking Account Payment date the Trustee or the Co-Trustee purchases the applicable Term Bonds with moneys in the Debt Service Fund, or (2) during said period and prior to giving notice of redemption the Authority otherwise deposits the applicable Term Bonds with the Trustee or the Co-Trustee (together with a Request of the Authority to apply such Bonds so deposited to the Mandatory Sinking Account Payment due on said date), the amount of Bonds so purchased or deposited shall be credited at the time of such purchase or deposit, to the extent of the full principal amount thereof, to reduce such Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to this paragraph are required be cancelled and destroyed by the Co-Trustee.

With respect to each series of Bonds for which proceeds of the sale thereof are required to be set aside to pay interest on the Bonds, the Trustee (if so instructed by the Supplemental Indenture providing for the issuance of such Series) shall transfer from the Construction Fund and deposit in the Debt Service Fund the amounts at the times specified in the Supplemental Indenture providing for the issuance of such Series.

Crane Surcharges, if any, set aside by the Authority or otherwise designated to be applied to the payment of principal or interest on Bonds shall be deposited in the Debt Service Fund.

Application of Bond Reserve Fund

All amounts in the Bond Reserve Fund shall be used and withdrawn by the Trustee and transferred to and applied by the Co-Trustee solely for the purpose of paying debt service on Bonds (including Payment Agreement Payments to the extent provided in any Supplemental Indenture) in the event of a deficiency in the Debt Service Fund, in the manner and to the extent set forth in the Indenture. So long as the Authority is not in default under the Indenture, any amount in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement shall be transferred to the Revenue Fund. A Supplemental Indenture providing for the issuance of a Series of Bonds may provide that income derived from the investment of the proceeds of such Series in the Bond Reserve Fund prior to the completion of each Project for which such Bonds were issued shall be deposited in the Construction Account for such Project. Otherwise, such income shall be deposited in the Revenue Fund.

If and to the extent provided by a Supplemental Indenture, and subject to certain provisions of the Indenture, the Bond Reserve Fund Requirement may be wholly or partially satisfied by a Credit Facility.

Application of Renewal and Replacement Reserve Fund

All amounts in the Renewal and Replacement Reserve Fund shall be used and withdrawn upon Requisition of the Authority solely for the purposes of (A) paying Renewal and Replacement Costs budgeted by the Authority, pursuant to the budget (or revised budget, as the case may be) filed in accordance with the Indenture, for the then current Fiscal Year, and (B) paying the costs of repair or replacement of loss or damage caused by or resulting from fire or from action of the elements (including loss from typhoons, earthquakes, floods and tidal waves). For purposes of this Section, any check, draft, warrant or purchase order of the Authority executed by an officer or employee of the Authority duly authorized by resolution of the Board of Directors of the Authority to execute such instruments shall be treated as a Requisition.

Application of Capital Improvement Fund and Working Capital Reserve Account

Except as may be otherwise set forth in a Supplemental Indenture, all amounts in the Capital Improvement Fund and the Working Capital Reserve Account therein may be used and withdrawn by the Authority for any lawful purpose of the Authority (subject to, in respect of the Working Capital Reserve Account, any requirements and restrictions applicable thereto established by the Board) or may be transferred to the Revenue Fund, in each case upon Request of the Authority. The Authority may direct the appropriate Depository to establish accounts within the Capital Improvement Fund as the Authority deems necessary or convenient, and may restrict the purposes for which amounts in any such account may be used and withdrawn so long as such purposes are lawful Port purposes.

Application of Operation and Maintenance Reserve Fund.

All amounts in the Operation and Maintenance Reserve Fund shall be used and withdrawn upon requisition of the Authority solely for the purpose of paying Operation and Maintenance Expenses if and to the extent that amounts on deposit in the Operation and Maintenance Fund are insufficient for such purpose. For purposes of this Section, any check, draft or warrant of the Authority executed by any Responsible Officer or the Chairperson shall be treated as a Requisition.

Application of Subordinate Securities Fund

All amounts in the Subordinate Securities Fund may be used and withdrawn, as directed by a Request of the Authority, for the purpose of paying debt service due on Subordinate Securities, amounts due pursuant to Payment Agreements (including Termination Payments), funding or replenishing reasonable reserves and meeting other requirements of the instrument pursuant to which such Subordinate Securities are issued.

Investment of Moneys in Funds

All Investment Securities and any other investments acquired with moneys held under the Indenture shall be acquired subject to the limitations of any covenant relating to the exclusion of interest on Bonds from gross income for federal income tax purposes, to the limitations as to maturities set forth in the Indenture and to such additional limitations or requirements consistent with the foregoing as may be established by Request of the Authority. No Investment Security which is subject to redemption at the option of the issuer may be purchased at a premium above the amount of the premium payable upon any such redemption.

Moneys in the Construction Accounts, the Rebate Fund, the Debt Service Fund and the Bond Reserve Fund shall be invested solely in Investment Securities to maximize investment income, with proper regard for the preservation of principal, pursuant to a Request of the Authority as to such investment. In the absence of any different instruction, such moneys shall be invested in Investment Securities described in clause (6) of the definition thereof.

Moneys in the Revenue Fund, the Operation and Maintenance Fund, the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Reserve Fund and the Capital Improvement Fund may be invested in any investment designated by Request of the Authority.

Notwithstanding any other provision of the Indenture, moneys in the Revenue Fund and the Bond Reserve Fund shall be invested only in Investment Securities which, at the time of investment, carry a rating in one of the two highest rating categories of the Rating Agency (without regard to subcategories, outlooks or other gradations).

Subject to the provisions of any Supplemental Indenture, moneys in all Funds and Accounts established under the Indenture shall be invested in investments paying interest and maturing not later than the dates on which it is estimated that such moneys will be required by the Trustee, the Co-Trustee, the applicable Depositary or the Authority.

All interest and other profit derived from such investments shall be deposited in the Revenue Fund when received, except that interest and other profit derived from the investment of moneys in the Construction Accounts, the Capital Improvement Fund and the Rebate Fund shall be retained in such respective Fund or Account, and except that interest and other profit derived from the investment of moneys in the Bond Reserve Fund shall be deposited as provided in the Indenture. Investments acquired as an investment of moneys in any Fund or Account established under the Indenture shall be credited to such Fund or Account.

Subject to the provisions of any Supplemental Indenture, for the purpose of determining the amount in any Fund or Account, except the Rebate Fund, the amount of any obligation allocable to such Fund or Account shall be equal to the purchase price of such obligation (not including accrued interest, if any, paid on the purchase of such obligation) plus the amount of any discount below par accounting for any such discount ratably each year over the term of such obligation (i.e., by dividing the amount of such discount by the number of interest payments remaining to maturity and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of purchase) ("amortized value"); provided, however, that the amount of any accrued interest on any obligation may be credited to the Revenue Fund or to any Fund or Account to which such amount or any portion thereof may have been transferred from the Revenue Fund.

The Trustee, the Co-Trustee or the applicable Depositary may sell at the best price obtainable, or present for redemption, any security purchased under the Indenture whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the Fund or Account to which such security is credited, and the Trustee, the Co-Trustee and such Depositary shall not be liable or responsible for any loss resulting from such investment.

CERTAIN COVENANTS

Payment of Principal and Interest

The Authority will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, but solely from Revenues and other moneys held in trust under the Indenture, as provided in the Indenture.

Against Encumbrances

Subject to any rights of the United States of America or as otherwise set forth in the Indenture, the Authority will not mortgage or otherwise encumber, pledge or place any charge upon the Port or any part thereof, or upon any of the Revenues, prior to or on a parity with the Bonds, the Parity Payment Agreements and Credit Agreement Payments. So long as any Bonds are Outstanding, the Authority will not issue any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues prior to or on a parity with the Bonds, the Parity Payment Agreements and the Credit Agreement Payments, other than the Bonds, the Parity Payment Agreements and the Credit Agreement Payments. Except as may be otherwise set forth in a Supplemental Indenture, nothing in the Indenture, and particularly nothing in the preceding two paragraphs, shall prevent the Authority from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which as to principal or interest, or both, (1) are payable from Revenues after and subordinate to the payment from Revenues of the principal of and interest on the Bonds, the Parity Payment Agreement Payments and Credit Agreement Payments, or (2) are payable from moneys which are not Revenues as such term is defined in the Indenture.

Sale or Other Disposition of Property

The Authority and the Government will not sell or otherwise dispose of the Port or any part thereof, or permit others to sell or otherwise dispose of the Port or any part thereof, essential to the proper operation of the Port or to the collection of Revenues sufficient to pay debt service on the Bonds, Parity Payment Agreement Payments and Credit Agreement Payments and otherwise comply with the rate covenant contained in the Indenture. The Authority will not enter into any agreement which impairs the operation of the Port or impedes the collection of Revenues sufficient to pay debt service on the Bonds, Parity Payment Agreement Payments and Credit Agreement Payments and otherwise comply with the rate covenant contained in the Indenture.

Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Port, or any material or equipment which has worn out or become unserviceable, inadequate, obsolete or otherwise unfit to be used, may be sold at a price not less than the fair market value thereof if such sale will not reduce Net Revenues Available for Debt Service and if the net proceeds of such sale (after making or providing for any deductions required by applicable law or regulation) are deposited in the Revenue Fund.

Notwithstanding the foregoing, the Authority may from time to time sell, transfer or otherwise dispose of any property of the Port, and such property may be sold, leased or otherwise disposed of as the transferee may determine, if (i) the proceeds of any such sale or transfer are deposited in the Revenue Fund as security for the payment of all Bonds then Outstanding and any Credit Agreement Payments, or Parity Payment Agreement Payments, and (ii) the Port Consultant shall deliver a certificate substantially to the effect that such sale, transfer or other disposition will not reduce Net Revenues Available for Debt Service during such Fiscal Year below 1.25 the Aggregate Annual Debt Service for such Fiscal Year without any related increase in the schedule of rates, rents, fees and charges then in effect.

Operation and Maintenance of the Port; Prohibition Against Waste

The Authority will maintain and preserve the Port in good repair and working order at all times from the Revenues available for such purposes, in conformity with prudent management and standards customarily followed in the industry for a port of like size and character. The Authority will from time to time make all necessary and proper repairs, renewals, replacements, improvements, additions and substitutions to the properties of the Port, so that at all times business carried on in connection with the Port shall and can be properly and advantageously conducted in an efficient manner and at reasonable cost. The Authority will operate the Port in an efficient and economical manner, consistent with the protection of the Owners of the Bonds and so as to assure that the Port shall be financially self-sufficient and self-sustaining. The Authority shall not commit or allow any waste with respect to the Port. Nothing in the Indenture shall prohibit the Authority from (i) subcontracting any part of the maintenance and operation of the Port, or (ii) leasing property of the Port, in the normal and customary course of business according to the schedule of rates, fees, rents or charges of the Authority and subject to the rights and obligations of the Indenture.

Liens and Claims

Subject to any rights of the United States of America, the Authority shall keep the Port and all parts thereof free from judgments, from mechanics' and materialmen's liens and from all liens and claims of whatsoever nature or character, to the end that the security provided pursuant to the Indenture may at all times be maintained and preserved, and the Authority shall keep the Port and the Revenues free from any liability which might hamper the Authority in conducting its business or operating the Port. The Trustee or and Co-Trustee at its option (after first giving the Authority ten days' written notice to comply therewith and failure of the Authority to so comply within said ten-day period) may defend against any and all actions or proceedings in which the validity of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against such actions or proceedings or in paying or compromising such claims or demands, the Trustee or the Co-Trustee shall not in any event be deemed to have waived or released the Authority from liability for or on account of any of its covenants and warranties contained in the Indenture, or from its liability under the Indenture to defend the validity of the Indenture and the pledge made in the Indenture and to perform such covenants and warranties.

The use agreements, operating agreements and terminal building leases between the Authority and any entity relating to the use by such entity of the Port and all rights of such party thereunder shall be expressly subordinated and subject to the lien of the Indenture.

Insurance

The Authority will maintain or cause to be maintained insurance on the Port with responsible insurers in such amounts and against such risks (including accident to or destruction of the Port) as are usually maintained by prudent operators of ports similar and/or similarly situated to the Port and which it shall deem advisable or necessary to protect its interests and the interests of the Bondowners so long as such insurance is available to the Authority on the open market from responsible insurers at reasonable cost. In the event of any damage to or destruction of the Port caused by the perils covered by such insurance, the proceeds of such insurance shall be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Port; and the Authority shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction has occurred and to continue and to be properly completed as expeditiously as possible. If the proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or replacement, the Authority shall deposit such excess in the Capital Improvement Fund. Notwithstanding the foregoing, if the proceeds of such insurance, together with other moneys available for such purpose, are sufficient to enable the Authority to retire all Outstanding Bonds, whether at maturity or on redemption prior to maturity or any combination thereof, and to pay the Parity Payment Agreement Payments and any Termination Amount payable by the Authority pursuant to Parity Payment Agreements in connection with a termination thereof, and to pay any Credit Agreement Payments then due and payable the Authority may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Port, and thereupon, the proceeds of such insurance shall be applied by the Authority and the Trustee to the payment when due of the interest to become due on all Outstanding Bonds on and prior to the maturity date or redemption date thereof, as the case may be, to the payment of the principal of and redemption premiums, if any, on all Outstanding Bonds at maturity or on redemption prior to maturity, as the case may be, and to the payment of such Parity Payment Agreement Payments and any such Termination Amounts, as the case may be, when due and to pay any Credit Agreement Payments then due and payable.

The Authority will maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Bondowners, which insurance shall afford protection in such amounts and against such risks as are usually maintained by prudent operators of ports similar to the Port.

Any insurance required under the Indenture may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner customarily maintained by prudent operators of ports similar to the Port. The Authority shall, every third year, engage an insurance consultant to review the Authority's self-insurance program and to make recommendations for any necessary modifications, including, but not limited to, any modifications necessary to comply with these provisions. Each such report shall be filed with the Trustee.

Books and Accounts; Financial Statements

The Authority will keep proper books of record and accounts, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Port. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee, the Co-Trustee or any Owner of Bonds then Outstanding or their representatives authorized in writing, at reasonable hours and under reasonable conditions.

The Authority will prepare and file with the Trustee and the Co-Trustee annually within nine months after the close of each Fiscal Year so long as any of the Bonds are Outstanding: (1) financial statements for the preceding Fiscal Year, prepared in accordance with (i) the accounting requirements of the Indenture and (ii) generally accepted accounting principles applied on a consistent basis from year to year, including a balance sheet, statement of income, statement of retained earnings, and statement of changes in financial position (including a statement of revenue, expenditures and fund balances for each of the Funds and Accounts established pursuant to the Indenture), and including a reconciliation between the bases of accounting required under clauses (i) and (ii) above, which financial statements shall be examined by and include the certificate or opinion of an Independent Certified Public Accountant, such certificate or opinion to include a statement as to the manner and extent to which the Authority has complied with the provisions of the Indenture as it relates to said financial statements; and (2) a statement as to all insurance

carried by the Authority as of the end of such Fiscal Year, including a brief description of the amount and coverage of each insurance policy and the name of the insuring company.

The Authority will furnish a copy of the aforesaid statements to any Credit Provider and to any Bondowner upon request, and will furnish to the Trustee such reasonable number of copies thereof (not exceeding 50 printed copies in any Fiscal Year) as may be required by the Trustee for distribution to investment bankers, securities dealers and others interested in the Bonds and to the Owners of Bonds requesting printed copies thereof. The Trustee shall not be required to incur any non-reimbursable expenses in making such distribution. Any of the foregoing requests or requirements for copies of any statement shall be deemed to have been satisfied by the Authority if such statement is provided by Electronic Means.

Authority Budgets

Prior to the commencement of each Fiscal Year, the Authority shall prepare and adopt an annual budget for such Fiscal Year. Such budget shall set forth in reasonable detail the Revenues anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year including, without limitation, the amounts required to provide for the payment of the principal of, interest and redemption premium, if any, on the Bonds during such Fiscal Year (including, as a separate line item, Crane Surcharges, if any, designated for such purpose), to pay or provide for Operation and Maintenance Expenses for such Fiscal Year (including, as a separate line item, Crane Surcharges, if any, designated for such purpose), to pay or provide for Renewal and Replacement Costs for such Fiscal Year, to make up any deficiencies in any Fund or Account anticipated for the then current Fiscal Year, and to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year, and shall show that Net Revenues Available for Debt Service shall be at least adequate to satisfy the rate covenant contained in the Indenture. The Authority shall supply to the Trustee, the Co-Trustee, the Revenue Fund Depositary, any Credit Provider and any Bondowners who shall so request in writing a copy of the annual budget for the then current Fiscal Year. Such budget shall also be open for inspection by any Owner during normal business hours. The Authority may at any time adopt a revised annual budget and shall supply copies as aforesaid. Any of the foregoing requests or requirements for copies of any budget shall be deemed to have been satisfied by the Authority if such budget is provided by Electronic Means.

Payment of Taxes, Etc.

The Authority will pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Authority on account of the Port or any portion thereof or upon any Revenues and which, if unpaid, might impair the security of the Bonds, when the same shall become due, but nothing contained in the Indenture shall require the Authority to pay any such tax, assessment or charge so long as it shall in good faith contest the validity thereof. The Authority will duly observe and conform with all valid requirements of any governmental authority having jurisdiction over the Authority or the Port or any part thereof.

Acquisition and Construction of Improvements

The Authority will commence and will continue to completion the acquisition or any property and construction of any improvements to the Port proposed to be financed from any Series of Bonds, and said property and improvements will be acquired, constructed and completed in a sound and economical manner and in conformity with law.

Eminent Domain Proceeds

If all or any part of the Port shall be taken by or under threat of eminent domain proceedings, the net proceeds realized by the Authority therefrom (excluding any portion thereof payable to the United States of America or required by the United States of America to be deposited in a restricted fund) shall be deposited by the Responsible Officer in a special fund in trust and applied and disbursed by the Responsible Officer subject to the following conditions:

(A) If such proceeds are sufficient to provide for the payment of the entire amount of principal due or to become due upon all of the Bonds, together with all of the interest due or to become due thereon and any redemption premiums, and all amounts payable under Parity Payment Agreements (including Termination Amounts) and all Credit Agreement Payments then due and payable so as to enable the Authority to retire all of the Bonds, either by redemption at the then current redemption prices or by payment at maturity or partly by redemption prior to maturity and partly by payment at maturity, and terminate such Parity Payment Agreements and discharge such obligations with respect to such Credit Agreement Payments, the Responsible Officer shall transfer such moneys to the Trustee or the Co-Trustee who shall apply such moneys to such retirement and to the payment of such amounts. The balance of such moneys, if any, shall be transferred back to the Authority and shall be deposited in the Capital Improvement Fund.

(B) If such proceeds are insufficient to provide the moneys required for the purposes described in the foregoing paragraph (A), the Authority shall by resolution determine to apply such proceeds for one of the following purposes, subject to the conditions described in this paragraph (B):

(1) The Authority may determine to apply such proceeds to the purchase or redemption of Bonds then Outstanding and to the payment of Credit Agreement Payments then due and payable. In that event, the Responsible Officer shall transfer such proceeds to the Trustee, who shall apply such proceeds pro rata to the redemption or purchase of Bonds of each Series then Outstanding in the proportion which the principal amount of outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then Outstanding.

(2) The Authority may determine to apply such proceeds to the cost of additions or improvements to or extensions of the Port if the Authority first secures and files with the Trustee a report of an Independent Consulting Engineer (a) showing (i) the loss in annual Revenues, if any, suffered or to be suffered, by the Authority by reason of such eminent domain proceedings, (ii) a general description of the additions, improvements or extensions then proposed to be acquired by the Authority from such proceeds, and (iii) an estimate of the additional Revenues to be derived from such additions, improvements or extensions; and (b) determining that such eminent domain proceedings will not substantially impair the ability of the Authority to meet the rate covenant contained in the Indenture. The Authority shall then promptly proceed with the construction of the additions, improvements or extensions substantially in accordance with such report. Payments for such construction shall be made by the Authority from such proceeds. Any balance of such proceeds not required by the Authority for the purposes aforesaid shall be deposited in the Capital Improvement Fund.

Rate Covenant

The Authority shall at all times fix, prescribe and collect rates, fees and charges in connection with the services furnished by the Port which will be sufficient to yield the sum of Net Revenues Available for Debt Service during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year (the "Debt Service Coverage Ratio") and to yield Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required to be made to the Operations and Maintenance Fund, the Debt Service Fund, the Bond Reserve Fund, the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund for such Fiscal Year.

If the financial statements prepared pursuant to the Indenture reflect that (or if the Authority's other books and records at the time such statements are due under the Indenture reflect that) at the end of a Fiscal Year the sum of Net Revenues Available for Debt Service shall have been less than 1.25 times Aggregate Annual Debt Service for such Fiscal Year, or if Revenues shall have been less than the aggregate amount of all transfers required to be made to the Operations and Maintenance Fund, the Debt Service Fund, the Bond Reserve Fund, the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund for such Fiscal Year, the Authority shall promptly employ a Port Consultant to make recommendations as to a revision of such rates, fees and charges or the methods of operation of the Port, which recommendations shall be provided within 90 days of such engagement. The Authority shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Authority, the Owners and each Credit Provider,

revise such rates, fees and charges or methods of operation and will take such other actions as shall be in conformity with such recommendations.

If the Authority complies in all material respects with the reasonable recommendations of the Consulting Engineer with respect to said rates, fees, charges and methods of operation or collection, or makes a good faith determination that such recommendations are not in the best interests of the Authority, then the Authority will be deemed to have complied with the rate covenant contained in the Indenture for the 12 ensuing consecutive months following the delivery of the recommendations of the Consulting Engineer; provided, that Net Revenues Available for Debt Service shall in no event have been less than Aggregate Annual Debt Service for any Fiscal Year ending during such period.

The Authority may make adjustments from time to time in its rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce such rates, fees and charges below those then in effect unless the Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of the Indenture.

Compliance with Indenture

The Authority (and the Government as to its covenant summarized below) will faithfully observe and perform all the covenants, conditions and requirements of the Indenture, and will not suffer or permit any default to occur under the Indenture, or do or permit to be done, in, upon or about the Port, or any part thereof, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to the Indenture.

Observance of Laws and Regulations

The Authority shall comply promptly, fully and faithfully with and abide by any contract relating to or affecting the availability of any grant or other similar assistance and any statute, law, ordinance, order, rule, regulation, judgment, decree, direction or requirement now in force or hereafter enacted, adopted or entered by any competent governmental authority or agency applicable or with respect to or affecting the acquisition, construction or reconstruction of the Port or any part thereof or applicable or with respect to or affecting the operation, manner, use or condition of the Port or any part or parcel thereof or adjoining public ways or relating to the imposition of charges or collection of Revenues; provided that the Authority need not comply with any such contract, statute, law, ordinance, rule, regulation, judgment, decree, direction or requirement if and so long as the Authority in good faith shall be contesting or permitting or causing to be contested the applicability or validity thereof by appropriate proceedings diligently prosecuted, even though such contest may result in the imposition of a lien or charge against the Port or the Revenues, if (1) the Authority shall effectively prevent foreclosure or enforcement of any such lien or charge and (2) the foreclosure or enforcement of any such lien or charge shall be stayed, and if said stay thereafter expires, the Authority shall forthwith discharge such lien or charge or cause the same to be discharged, so that pending such proceedings the Port and the Revenues thereof shall not be affected thereby, and the security of the Bonds shall not be impaired.

Prosecution and Defense of Suits

The Authority shall promptly from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Port hereafter developing, and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purposes and, to the extent permitted by law, shall indemnify and save the Trustee, Co-Trustee and every Bondowner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding. The Authority shall defend against every suit, action or proceeding at any time brought against the Trustee, Co-Trustee or any Bondowner upon any claim arising out of the receipt, application or disbursement of any of the Revenues or involving the rights of the Trustee, Co-Trustee or any Bondowner under the Indenture; provided, that the Trustee, Co-Trustee or any Bondowner at its or his election may appear in and defend any such suit, action or proceeding. The Authority shall, to the extent permitted by law, indemnify and hold harmless the Trustee, Co-Trustee and the Bondowners against any and all liability claimed or asserted by any person arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Bondowners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation to which any of them may become a defendant by

reason of its ownership of Bonds. The Authority, to the extent permitted by law, shall promptly reimburse any Bondowner in the full amount of any attorneys' fees or other expenses which such Bondowner may incur in litigation or otherwise in order to enforce its rights under the Indenture or the Bonds, if such litigation is concluded favorably to such Bondowner's contentions therein. Notwithstanding any contrary provision of the Indenture, this paragraph will remain in full force and effect, even though all indebtedness and obligations issued under the Indenture may have been fully paid and satisfied, until the Authority shall have been dissolved.

Pledge of the Government

The Government pledges to the holders of all Bonds the following: while any Bonds remain outstanding and not fully performed or discharged (A) to maintain the rights, powers and duties of the Board and the Guam Public Utilities Commission, or their respective successors in accordance with law, to fulfill the terms of Bonds and the Indenture, (B) to maintain the rights and remedies of Bondholders provided in the Act and the Indenture, (C) to protect the exclusive right of the Authority to operate or maintain within Guam the Port system operated by the government or its designees by preventing the acquisition, operation, maintenance or permitting of any instrumentality of the Government or any other public or private agency, entity or person to operate a separate and competitive system, and (D) not to transfer any non-Port system operating responsibilities or other unfunded mandates to the Authority without providing for the payment of the costs of such additional responsibilities, with the exception of annual supplemental annuity and COLA contributions paid by the Authority on behalf of retired employees of the Authority (or its lawful predecessors) as may be required by other laws of Guam. The Authority includes a pledge and agreement of the Government in the Indenture as authorized by Section 10229 of the Act.

Maintenance of Revenues

The Port will promptly collect all rents and charges due for the occupancy or use of the Port as the same become due, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due. The Port will, in a prudent manner, maintain and vigorously enforce all of its rights under any leases and other agreements relating to any part of the Port.

Retention of Port Consultant

The Authority shall retain one or more Independent Port Consultants for any purposes for which an Port Consultant is required under the Indenture, including to review and advise upon the rents, fees and charges established pursuant to the Indenture and otherwise to advise the Authority upon request with respect to any matter relating to the Port.

Any Supplemental Indenture or Credit Agreement entered into in connection with Bonds may provide that the Credit Provider with respect thereto has the right to direct the Authority to remove the Port Consultant and appoint a successor under the circumstances specified in the Indenture.

Special Facility Bonds and Special Facility Leases

Anything in the Indenture to the contrary notwithstanding, the Authority may issue or otherwise become an obligor in respect of any Special Facility Bonds and enter into contracts, leases, subleases or other agreements pursuant to which the Authority will agree to construct a Special Facility on land constituting part of the Port or will agree to acquire or construct a Special Facility on land not then constituting part of the Port (which land, if not then owned or leased by the Authority, may be acquired for such purpose), or to acquire and remodel, renovate or rehabilitate a building, structure or other facility (including the site thereof) for a Special Facility, and lease such Special Facility under the following conditions:

(A) No Special Facility will be constructed or acquired and leased for use or occupation under this Section: (1) if the Special Facility would provide services, facilities, commodities or supplies which then may be adequately made available through the Port as then existing, and (2) if the result of the use or occupation of such Special Facility under the contract, lease, sublease or agreement therefor would result in a reduction of Revenues below the minimum amount of Revenues covenanted to be produced and maintained in accordance with the Indenture; and

(B) If a Special Facility is located on land included in the Port, upon the retirement of the indebtedness evidenced by the Special Facility Bonds issued therefor or evidenced by refunding Special Facility Bonds (which may be issued to refund Special Facility Bonds), all rentals and other income thereafter received by the Authority from the Special Facility for which Special Facility Bonds were issued shall, to the extent permitted by law, constitute Revenues and be paid into the Revenue Fund, to be used and applied as are other moneys deposited therein, and if such rentals and other income shall then constitute Revenues, such Special Facility shall, unless contrary to law, then constitute part of the Port for all purposes of the Indenture.

Tax Covenants for 2018 Tax-Exempt Bonds

The Authority intends that interest on the 2018 Tax-Exempt Bonds be excluded from gross income for federal income tax purposes, that the 2018 Tax-Exempt Bonds and the interest thereon be exempt from taxation by any state or political subdivision or the District of Columbia and that interest on the 2018 Series A Bonds not be treated as a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. The Authority reserves the right to determine the desired tax status of any additional Series of Bonds.

The Authority has covenanted that it shall not use or permit the use of any proceeds of the 2018 Tax-Exempt Bonds or any other funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not use or permit the use of any amounts received by the Authority in any manner, and shall not take or permit to be taken any other action or actions, which would cause any such Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code or to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

The Authority has covenanted that it shall at all times do and perform all acts and things permitted by law and the Indenture which are necessary or desirable in order to assure that interest paid on the 2018 Tax-Exempt Bonds (or on any of them) shall be excluded from gross income for federal income tax purposes and that interest paid on the 2018 Series A Bonds shall not be treated as a specific preference item for purposes of the federal individual and corporate alternative minimum taxes.

EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS

Events of Default

Any one or more of the following events shall be an “Event of Default” under the Indenture:

(1) if default shall be made in the due and punctual payment of the principal of, or the premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, or otherwise, or if default shall be made in the redemption or payment at maturity from any Sinking Account of any Term Bonds in the amounts and at the times provided therefor;

(2) if default shall be made in the due and punctual payment of any installment of interest on any Bond or any Parity Payment Agreement Payment when and as such interest installment or Parity Payment Agreement Payment shall become due and payable;

(3) if default shall be made by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained or by the Government in the observance of its covenant in summarized above (under “Pledge of the Government”), and such default shall have continued for a period of 30 days after notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, the Co-Trustee or a Credit Provider, or to the Authority, the Trustee and the Co-Trustee by the Owners of not less than twenty-five percent in aggregate principal amount of the Bonds at the time Outstanding; or

(4) if the Authority shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other

law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Remedies

In each and every case during the continuance of an Event of Default, the Trustee in its own name and as Trustee of an express trust, on behalf and for the benefit and protection of the Bondowners, after notice to the Authority, and upon the request of the Owners of a majority in Accreted Value of the Bonds then Outstanding, shall proceed to protect and enforce any rights of the Trustee and, to the full extent that the Bondowners themselves might do, the rights of such Bondowners under the Indenture and under the laws of the Government by such of the following remedies as such majority shall deem most effectual to protect and enforce such rights:

(a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondowners, including the right to require the Authority to charge, prescribe and collect Revenues adequate to comply with the covenants and agreements made in the Indenture, and to require the Authority to carry out any other covenant or agreement with the Bondowners and to perform its duties under the Act;

(b) by bringing suit upon the Bonds;

(c) by action or suit in equity, to require the Authority to account as if it were the trustee of an expressed trust for the Bondowners;

(d) by realizing or causing to be realized through sale or otherwise upon the moneys, securities and other assets pledged under the Indenture;

(e) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondowners;

(f) by requiring the Authority to endorse all checks and other negotiable instruments representing Revenues to the order of the Trustee immediately upon the receipt thereof and to deliver such endorsed instruments daily to the Trustee;

(g) by notifying any or all account debtors of the Authority to pay any amounts representing Revenues, when due, directly to the Trustee as Trustee; and

(h) by commencing proceedings for the appointment of a receiver or receivers of the Port and of the Revenues, with such powers as the court making such appointment confers.

Application of Funds Upon Default

All of the Revenues, all amounts constituting proceeds from the sale of Bonds on deposit in certain of the Funds and Accounts established under the Indenture, amounts in Construction Accounts and the Revenue Fund (except any escrow fund established for the payment of any refunded obligations), subject to any limitations set forth in the Indenture, upon the date of the declaration of an Event of Default as provided in the Indenture and all Revenues thereafter received by the Authority, the Trustee, the Co-Trustee or any Depositary under the Indenture, shall be transmitted to the Trustee and be applied by the Trustee as and in the order of priority provided in the Indenture; provided, however, that (A) if amounts in the Debt Service Fund are insufficient to pay, when due, all interest on, principal of, and Mandatory Sinking Account Payments on all Bonds then Outstanding, all Parity Payment Agreement Payments pursuant to Parity Payment Agreements then Outstanding and all Credit Agreement Reimbursement Payments due and payable pursuant to Credit Agreements then Outstanding, then such amounts in the Debt Service Fund shall be used first to pay all installments of interest then due and owing without preference or priority of any such installment of interest over any other installment of interest, then to pay installments of principal and Mandatory Sinking Account Payments then due and owing, without preference or priority of any installment of principal or Mandatory Sinking Account Payments over any other such installment, then to pay all Credit Agreement Reimbursement Payments then due and payable, and then to pay Parity Payment Agreement Payments then due and

owing, without preference or priority of any Parity Payment Agreement Payment over any other such Parity Payment Agreement Payment; and (B) amounts in Construction Accounts may be used for the purposes for which such Construction Accounts were created and funded if the Trustee determines, in accordance with relevant provisions of the Indenture, that such use is in the best interests of the Bondholders and the Credit Providers.

If any installment of interest, principal or Redemption Price is only partially paid, such payment shall occur only upon presentation of the several Bonds and the recording thereon of a record of such partial payment.

Representation of Bondowners by Trustee

In case one or more of the Events of Default shall happen, then and in every such case the Owner of any Bond at the time Outstanding shall be entitled to proceed to protect and enforce the rights vested in such Owner by the Indenture by such appropriate judicial proceeding as such Owner shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the exercise of any power granted in the Indenture, or to enforce any other legal or equitable right vested in the Owners of Bonds by the Indenture or by law; provided, however, that no such Bondowner shall have the right to institute any such judicial proceeding pursuant to this paragraph unless (A) such Owner shall have previously given to the Trustee notice of the occurrence of an Event of Default under the Indenture; (B) the Owners of at least a majority in Accreted Value of the Bonds then Outstanding shall have made request to the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (C) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (D) the Trustee shall have refused or omitted to comply with such request for a period of sixty days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee. The provisions of the Indenture shall constitute a contract with the Owners of the Bonds, and such contract and duties of the Authority and of the Authority members, officers and employees thereof shall be enforceable by any Bondowner by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

Nonwaiver

Nothing in the Indenture, or in the Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and the interest (and premium, if any) on the Bonds to the respective Owners of the Bonds at the respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues pledged in the Indenture for such payments, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default or breach of duty or contract by any Bondowner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on the subsequent default or breach. No delay or omission of the Trustee or of any Owner of any of the Bonds to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Act or relevant provisions of the Indenture to the Trustee or to the Owners of Bonds or any Credit Provider may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners of Bonds or any such Credit Provider.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bondowners, the Authority, the Trustee, the Co-Trustee and the Bondowners and each Credit Provider shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Actions by Trustee as Attorney-in-Fact

Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated (notwithstanding any conditions upon the bringing of any such action, suit or proceeding set

forth in the Indenture) and the Trustee is appointed (and the successive respective Owners of the Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action, or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Except as may be set forth in a Supplemental Indenture, anything in the Indenture to the contrary notwithstanding, the Owners of a majority in Accreted Value of the Bonds at any time Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture, provided that such direction shall be in accordance with law and the provisions of the Indenture.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee or to the Owners of Bonds or to any Credit Provider is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee and Co-Trustee may be modified or amended at any time by a Supplemental Indenture which shall become binding when the consents of the Owners of at least 60% in Accreted Value of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture; provided that if such modification or amendment will, by its terms, not take effect so long as any bonds of any particular maturity or Series remain Outstanding, the consent of the Owners of Bonds of such maturity or Series shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds relative to such modification or amendment; and provided further that the consent of a Credit Provider for any Bond shall be deemed to be the consent of the Owner of such Bond if specified in the Supplemental Indenture pursuant to which such Credit Provider is designated as providing a Credit Facility for such Bond.

No such modification or amendment shall (a) extend the fixed maturities of the Bonds, or extend the time for making any Mandatory Sinking Account Payments, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Owners of Bonds whose consent is required for the execution of any amendment or modification of the Indenture or permit the creation of any lien on the Revenues prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture upon such Revenues, without in each case the consent of the Owners of all of the Bonds then Outstanding.

No such modification or amendment shall modify any of the rights or obligations of any Fiduciary without its consent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, without the consent of any Bondowners, but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed or to surrender any right or power reserved to or conferred upon the Authority in the Indenture; (2) to cure, correct or supplement any ambiguous or defective provision contained in the Indenture or in regard to questions arising under the Indenture, as the Authority may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Owners of the Bonds or any Credit Provider; (3) to provide for the issuance of Additional Bonds, and to provide the terms and

conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture; (4) to provide for any other matters for which a Supplemental Indenture is expressly permitted or required under the Indenture; and (5) to make any other amendment or modification which shall not materially adversely affect the interests of the Owners of the Bonds or any Credit Provider.

Any Supplemental Indenture providing for the issuance of a Series of Bonds may require, in addition to or in lieu of any consents described in the foregoing provisions, the consent of any Credit Provider for such Bonds in order for any amendment to the Indenture affecting such Bonds to be effective, and may set forth appropriate procedures for obtaining and evidencing such consent.

Procedure for Amendment with Consent of Bondowners

The Authority may at any time adopt a Supplemental Indenture amending the provisions of the Bonds or of the Indenture, to the extent that such amendment is permitted by the Indenture, to take effect when and as provided. A copy of the Supplemental Indenture, together with a request to Bondowners for their consent thereto, shall be mailed by the Authority to each Owner of Bonds, but failure to receive any such copies of such Supplemental Indenture and request shall not affect the validity of the Supplemental Indenture when assented to as provided in the Indenture.

Such Supplemental Indenture shall not become effective unless there shall be filed with the Trustee the consents of the Owners of 60% in Accreted Value of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Indenture) and a notice shall have been published as hereafter provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Indenture. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice provided for has been published.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Indenture, the Authority shall mail a notice to the Bondowners in the manner provided for the mailing of the Supplemental Indenture and publication of the notice of adoption thereof, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in the Indenture (but failure to receive copies of said notice shall not affect the validity of the Supplemental Indenture or consents thereto). A record, consisting of the papers required to be filed with the Trustee, shall be proof of the matters therein stated until the contrary is proved.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bondowners upon such notice and in accordance with such rules and regulations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

DEFEASANCE

Discharge of Indenture

If the Authority shall pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways—

(A) by well and truly paying or causing to be paid the principal of (including redemption premiums, if any) and interest on all Bonds Outstanding, as and when the same become due and payable (but this clause shall not include Bonds the principal of or interest on which has been paid by a Credit Provider until said principal and interest shall have been paid by the Authority); or

(B) by depositing with the Co-Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Debt Service Fund and the Bond Reserve Fund, is fully sufficient to pay or redeem all Bonds Outstanding, including all principal, interest and redemption premiums, if any; or

(C) by delivering to the Co-Trustee, for cancellation by it, all Bonds Outstanding; or

(D) by depositing with the Co-Trustee, in trust, non-callable Federal Securities in such amount which, in the determination of an Independent Certified Public Accountant, who shall certify such determination to the Co-Trustee and, if so provided in a Supplemental Indenture, any Credit Provider, shall, together with the income or increment to accrue thereon and any other moneys of the Authority made available for such purpose, be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority (including all Parity Payment Agreement Payments and any Termination Payments payable in connection with a termination of a Parity Payment Agreement and any Credit Agreement Payments then due and payable) and deliver or have delivered to the Trustee, the Co-Trustee and each Credit Provider an Opinion of Counsel to the effect that upon satisfaction of the other requirements of the Indenture all obligations of the Authority under the Indenture have ceased, terminated and been completely discharged, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority signifying its intention to pay and discharge all such indebtedness and that the Indenture and all other obligations of the Authority under the Indenture shall cease and terminate, which shall be filed with the Trustee and the Co-Trustee), and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture and all other obligations of the Authority under the Indenture are required to cease, terminate and be completely discharged, and the Owners of the Bonds not so surrendered and paid would thereafter be entitled to payment only out of the money or Federal Securities deposited with the Co-Trustee as aforesaid for their payment; subject, however, to the provisions of the Indenture.

The Authority may at any time surrender to the Co-Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, are required to be deemed to be paid and retired.

Discharge of Liability on Bonds

Upon the deposit with the Co-Trustee, in trust, at or before maturity, of money or Federal Securities in the necessary amount to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Co-Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds will cease, determine and be completely discharged and the Owners thereof would thereafter be entitled only to payment out of the money or Federal Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

Payment of Bonds after Discharge of Indenture

Notwithstanding any provisions of the Indenture, any moneys deposited with the Co-Trustee in trust for the payment of the principal of, or interest or premium on, any Bonds and remaining unclaimed for two years after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture) are required to then be repaid to the Authority upon its Request, and the Owners of such Bonds would thereafter be entitled to look only to the Authority for payment thereof, and all liability of the Co-Trustee with respect to such moneys would thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Co-Trustee may (at the cost of the Authority) first publish at least once in a Financial Newspaper or Journal and in a newspaper of general circulation in Guam a notice, in such form as may be deemed appropriate by the Co-Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Authority as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited would thereafter be deemed to be general creditors of the Authority for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Authority (without interest thereon).

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Port Authority of Guam
Piti, Guam

Port Authority of Guam
Port Revenue Bonds
2018 Series A, 2018 Series B and 2018 Series C (Taxable)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Port Authority of Guam (the “Authority”) in connection with the issuance of \$_____ aggregate principal amount of Port Authority of Guam Port Revenue Bonds 2018 Series A (the “2018 Series A Bonds”), \$_____ aggregate principal amount of Port Authority of Guam Port Revenue Bonds 2018 Series B (the “2018 Series B Bonds” and, together with the 2018 Series A Bonds, the “2018 Series A&B Bonds”) and \$_____ aggregate principal amount of Port Authority of Guam Port Revenue Bonds 2018 Series C (Taxable) (the “2018 Series C Bonds” and, together with the 2018 Series A&B Bonds, the “Series 2018 Bonds”) issued pursuant to an indenture, dated as of July 1, 2018, as supplemented by the First Supplemental Indenture, dated as of July 1, 2018 (as so supplemented, the “Indenture”), among the Authority, Bank of Guam, as trustee (the “Trustee”) and U.S. Bank National Association, as co-trustee (the “Co-Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Authority, dated the date hereof (the “Tax Certificate”), certificates of the Authority, the Trustee, the Co-Trustee, and others, opinions of counsel to the Authority, the Trustee, the Co-Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the 2018 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2018 Series A&B Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2018 Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal

advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2018 Bonds and express herein no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2018 Bonds constitute the valid and binding limited obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.
3. The Indenture creates a valid pledge, to secure the payment of the principal of, premium, if any, and interest on the Series 2018 Bonds and the payment of Credit Agreement Payments and Parity Payment Agreement Payments, of the Revenues, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.
4. Interest on the Series 2018 A&B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, except that no opinion is expressed as to the status of interest on any 2018 Series B Bond for any period that such 2018 Series B Bond is held by a “substantial user” of the facilities financed or refinanced by the 2018 Series B Bonds or by a “related person” within the meaning of Section 147(a) of the Code. Interest on the 2018 Series A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the 2018 Series B Bonds is a specific preference item for purposes of the federal alternative minimum tax. Under 48 U.S.C. Section 1423a, interest on the Series 2018 A&B Bonds is exempt from taxation by the Government of Guam, or by any State or Territory of the United States or any political subdivision thereof, or by the District of Columbia. Under 48 U.S.C. Section 1423a, interest on the Series 2018 C Bonds is exempt from taxation by any State of the United States or any political subdivision thereof, or by the District of Columbia. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2018 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

[Closing Date]

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the Port Authority of Guam (the “Issuer”) and _____, as dissemination agent (the “Dissemination Agent”), in connection with the issuance of the Port Authority of Guam Port Revenue Bonds, 2018 Series A (Governmental/Non-AMT), the Port Authority of Guam Port Revenue Bonds, 2018 Series B (Private Activity-AMT), and the Port Authority of Guam Port Revenue Bonds, 2018 Series C (Federally Taxable) (collectively, the “2018 Bonds”). The 2018 Bonds are issued pursuant to an indenture, dated as of July 1, 2018, as amended and supplemented (the “Indenture”), including by a First Supplemental Indenture, dated as of July 1, 2018, each among the Issuer, Bank of Guam, as trustee, and U.S. Bank National Association, as co-trustee. The Issuer and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and the Dissemination Agent for the benefit of the Holders and Beneficial Owners and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person that has or shares the power, directly or indirectly, to make any investment decisions concerning ownership of any 2018 Bonds, including persons holding 2018 Bonds through nominees, depositories or other intermediaries.

“Holder” shall mean the person in whose name any 2018 Bonds shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Issuer’s Official Statement dated _____, 2018, relating to the 2018 Bonds.

“Participating Underwriters” shall mean any of the original underwriters of the 2018 Bonds required to comply with the Rule in connection with the offering of the 2018 Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the Issuer’s fiscal year (which is currently September 30), commencing with the report for the fiscal year ended September 30, 2018, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement.

(1) The Issuer shall provide the Annual Report to the Dissemination Agent on or before the date required for filing as provided in subsection (a) above. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report if they are not available by that date.

(2) If the Issuer's fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a form that can be accepted for filing by the MSRB and shall identify the 2018 Bonds by name and CUSIP number.

(b) If the Issuer is unable to provide to the MSRB or to the Dissemination Agent an Annual Report by the date required in subsection (a), the Issuer shall send, or cause to be sent, a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall file a report with the Issuer, certifying that the Annual Report has been provided to the MSRB pursuant to the Disclosure Agreement and stating the date it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with Generally Accepted Accounting Principles applicable to governmental entities. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be provided pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in the format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the Issuer (and without duplication), historical financial information and operating data of the Issuer of the types listed below (for the avoidance of doubt, although projections are included in the Official Statement, no new projections shall be required for the Annual Reports):

- (1) Table 1 – Ocean Carriers with Services to Guam;
- (2) Table 2 – Operating Revenues;
- (3) Table 4 – Major Companies Ranked by Revenues; and
- (4) Table 6 – Historical Operating Results.

Any or all of the items listed above may be incorporated by reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been made available to the public on the MSRB's website. The Issuer shall clearly identify each such other document so incorporated by reference.

The Issuer reserves the right to modify from time to time the format of the presentation of information provided pursuant to this Section to the extent necessary or appropriate in the judgment of the Issuer, provided that, in the Issuer's discretion, such modification shall be consistent with the Rule and the purposes of this Disclosure Agreement.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the 2018 Bonds in a timely manner not later than ten business days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Adverse tax opinions, issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes; or
- (9) Bankruptcy, insolvency, receivership or similar event of the Issuer.*

(b) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the 2018 Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (1) Unless described in paragraph 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the 2018 Bonds or other material events affecting the tax status of the 2018 Bonds;
- (2) Modifications to rights of the Holders;
- (3) Optional, unscheduled or contingent 2018 Bond calls;
- (4) Release, substitution or sale of property securing repayment of the 2018 Bonds.
- (5) Non-payment related defaults;
- (6) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
- (7) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

* For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(d) If the Issuer learns of the occurrence of a Listed Event described in Section 5(a), or determines that a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Issuer shall, or shall cause the Dissemination Agent to, promptly file within ten business days after the occurrence a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Events described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event given to Holders of affected 2018 Bonds pursuant to the Indenture.

SECTION 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2018 Bonds. If such termination occurs prior to the final maturity of the 2018 Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(d).

SECTION 8. Dissemination Agent. The Issuer has appointed _____ as exclusive Dissemination Agent under this Disclosure Agreement. The Issuer may, upon 30 days' prior written notice to the Dissemination Agent, replace or appoint a successor Dissemination Agent. Upon termination of the _____ services as dissemination agent, whether by notice of the Issuer or _____, the Authority agrees to appoint a successor dissemination agent or, alternately, agrees to assume all responsibilities of Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the 2018 Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Dissemination Agent. The Dissemination Agent may resign at any time by providing 30 days' prior written notice to the Issuer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, change in law (including rules or regulations) or the interpretation thereof, or change in the identity, nature, or status of the Issuer, or type of business conducted by the Issuer;

(b) the undertakings herein, as proposed to be amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2018 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interest of the Holders or Beneficial Owners of the 2018 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative, qualitative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice

required to be filed pursuant to this Disclosure Agreement, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or to include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with the Disclosure Agreement shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2018 Bonds.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and the Holders and Beneficial Owners from time to time of the 2018 Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, this Disclosure Agreement has been executed on behalf of the Issuer and the Dissemination Agent by their duly authorized representatives as of the date first written above.

PORT AUTHORITY OF GUAM

By: _____
Authorized Representative

[DISSEMINATION AGENT]

By: _____
Authorized Officer

EXHIBIT A

**FORM OF NOTICE TO
THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Port Authority of Guam

Name of Bond Issue: Port Authority of Guam Port Revenue Bonds, 2018 Series A (Governmental/Non-AMT),
Port Authority of Guam Port Revenue Bonds, 2018 Series B (Private Activity-AMT), and
Port Authority of Guam Port Revenue Bonds, 2018 Series C (Federally Taxable)

Date of Issuance: _____, 2018

NOTICE IS HEREBY GIVEN that the Port Authority of Guam (the "Issuer") has not provided an Annual Report with respect to the above-named bonds as required by Section 4 of the Continuing Disclosure Agreement, dated _____, 2018. [The Issuer anticipates that the Annual Report will be filed by ____].

Date: _____

PORT AUTHORITY OF GUAM

By: _____ [to be signed only if filed]
Title _____

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APPENDIX G

BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2018 Bonds. The 2018 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2018 Bond certificate will be issued for each maturity of each series of the 2018 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is a holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned and operated by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2018 Bond (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2018 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2018 Bonds, except in the event that use of the book-entry system for the 2018 Bonds is discontinued.

To facilitate subsequent transfers, all 2018 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2018 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2018 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2018 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2018 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2018 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2018 Bond documents. Beneficial Owners of 2018 Bonds may wish to ascertain that the nominee holding the 2018 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative,

Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2018 Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of, redemption price and interest on the 2018 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, redemption price or interest on the 2018 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such, payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2018 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, 2018 Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2018 Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

The preceding information in this APPENDIX G is supplied by DTC for inclusion herein, and has not been independently verified by the Authority or the Underwriters. No representation is made by the Authority as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Authority cannot and does not give any assurances that DTC will distribute to the Participants, or that the Participants or others will distribute to the Beneficial Owners, payments of debt service on the 2018 Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority is not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the 2018 Bonds or any error or delay relating thereto.

None of the Authority, the Trustee and the Co-Trustee shall have any responsibility or obligation to any DTC Participant, any beneficial owner or other persons claiming a beneficial ownership interest in the 2018 Bonds under or through DTC or any DTC Participant, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant with respect to the beneficial ownership interest in the 2018 Bonds; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and premium, if any, or interest on the 2018 Bonds to any beneficial owner or other person for the 2018 Bonds; or (iii) the delivery to any beneficial owner of the 2018 Bonds, or any other person of any notice which is permitted or required to be given to owners under the Indenture. None of the Authority, the Trustee and the Co-Trustee shall have any responsibility with respect to obtaining consents from anyone other than the registered owners.

