

PORT AUTHORITY OF GUAM

ANNUAL REPORT 2013



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> Introduction

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

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

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

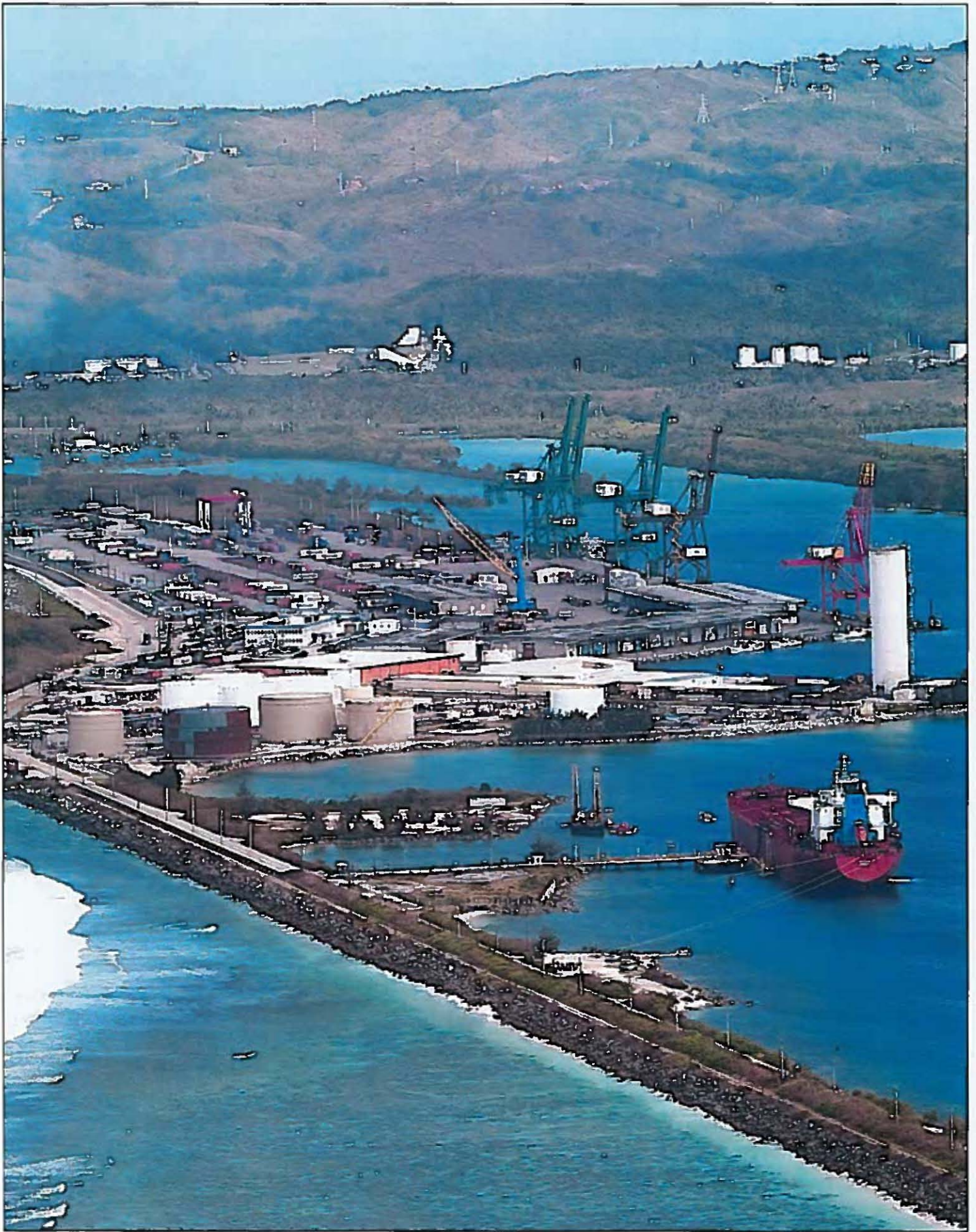
The Port facilities were designed in the 1960s and put into service in 1969. The facilities have remained unchanged since its construction in 1969 with the exception of the repair of F5 in 1999. This is in contrast to most modern mainland ports which have undergone two or more cycles of technological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



> Mission Statement

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





> Financial Highlights

The net position of the Authority as of September 30, 2013 was \$71.3 million. Of this amount, \$60 million is net investment in capital assets, \$446 thousand is considered restricted and \$10.9 million is considered unrestricted.

The Port's net position increased by \$93 thousand for fiscal year ended September 30, 2013.

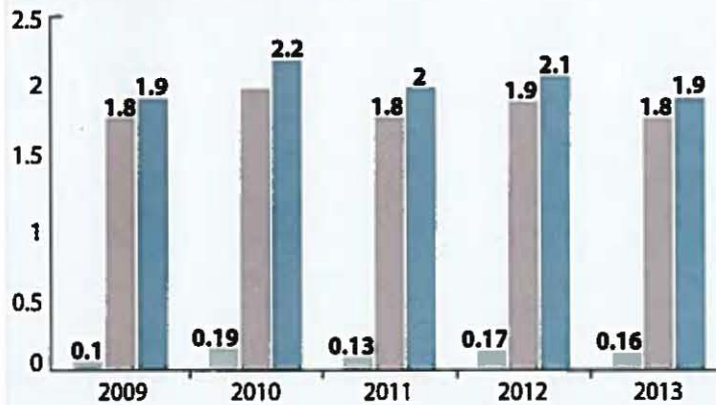
The Port's total assets increased by 13.4 million during the fiscal year ended September 30, 2013. The major components of this change were an increase in current assets by \$4.2 million and increase in capital assets by \$9.2 million.

The total liabilities increase by \$13.3 million during fiscal year ended September 30, 2013. The major component of this change was due to increase in non-current liabilities of \$10.9 million.

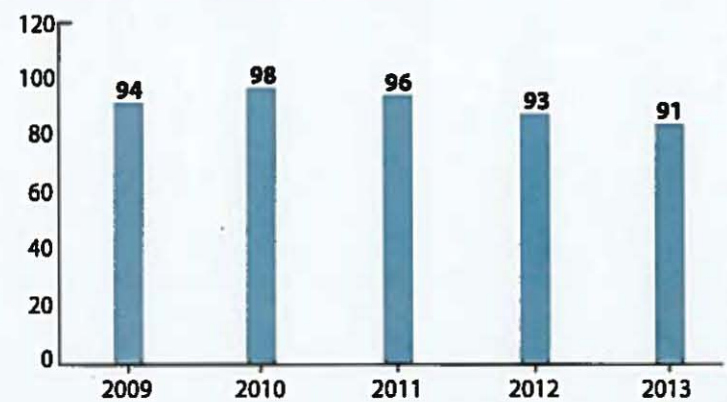
How Are We Doing – A Performance Report on Key Missions and Service

■ Breakbulk ■ Container ■ Total Cargo Revenue Tons

Total Revenue Tons (in millions)



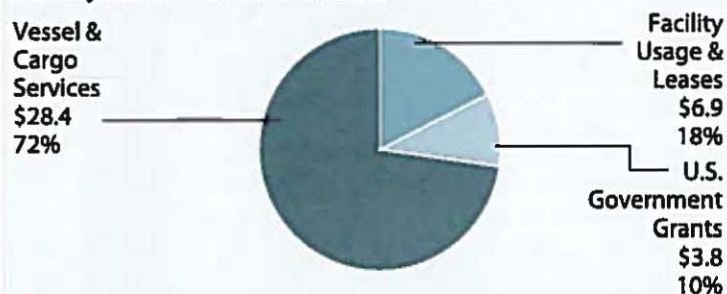
Total Containers Handled (in thousands)



The Port's Finances – Revenues and Expenses

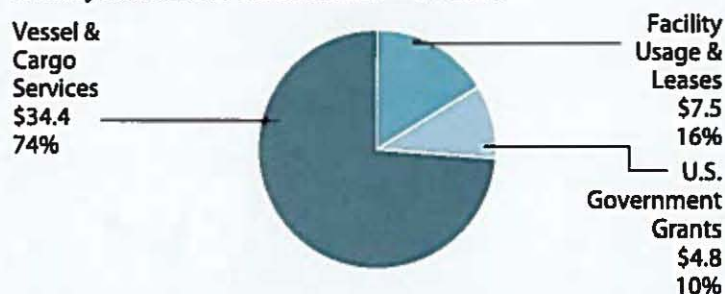
An Independent audit resulted in a clean audit opinion. Complete financial information can be found at www.portguam.com

Primary Sources of Port Revenues — FY 2012



Vessel and cargo services revenues in FY 2013 increased by \$6 million. The increase was primarily due to the new crane surcharge fee implemented on January 1, 2013. PAG Docket 12-02 established

Primary Sources of Port Revenues — FY 2013



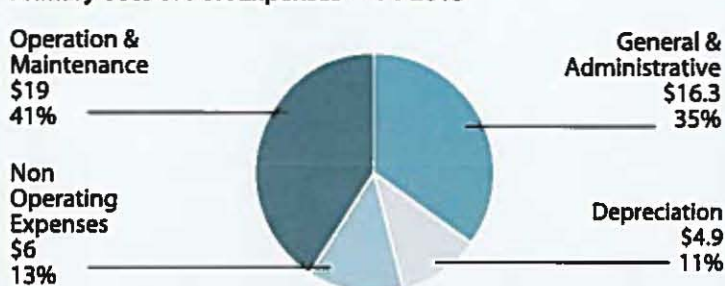
a \$105 Crane Surcharge per loaded import/export and loaded transshipment container. This rate increased to \$125 on March 1, 2013.

Primary Uses of Port Expenses — FY 2012



In Fiscal Year 2013, total operating expenses were \$40.8 million and non-operating expenses were \$6 million. Operating expense increased by \$5.9 million and non-operating expenses increased by \$3.9 million compared to fiscal year 2012. Operation and maintenance salaries and benefits increased due to overtime increase of \$661 thousand or 100% due to implementation of scheduling per the personnel rules and regulations, repairs and maintenance increase of \$1.9 million as a result of the maintenance/repairs associated with the three Gantries acquired, and the payout of increments as a result of the Government lifting the increment freeze. General and administrative expenses

Primary Uses of Port Expenses — FY 2013



increase by \$1 million due to \$200 thousand of Merit Bonus paid out as a result of Public Law 21-59, increase in legal fees, and loan fees. Depreciation increased by \$1.2 million or 32% due to the reclassification of a completed construction in progress project on GDP Dock A, B, & C Repair/Replacement and F1 Catwalk Replacement and purchase of new assets in FY 2013 to include the acquisition of 3 Gantry Cranes. Non-operating expenses increased by \$3.9 million due to reclassification of construction in progress projects for a master plan that will not be done due to the re-set of the GCPIP, loss on survey of Gantry 2 and interest expense for the \$12 million loan.

► Key Project Initiatives

Some of the key initiatives in 2014 are:

Numerous changes have occurred since the Port Authority of Guam (PAG) commissioned an update of its Master Plan for the Jose D. Leon Guerrero Commercial Port of Guam ("Port") in 2007. The intent of the 2013 Master Plan is to update the content, status, and direction of the Port Modernization Program (PMP) initiated by the Master Plan Update 2007 Report. In doing this, the re-direct PMP and implementation strategy attempt to:

- Modernize the Port in the next five years
- Prepare for a downsize and delayed Guam military build-up
- Provide a balanced focus on improvement and long-term sustainability
- Provide a strategy to secure financial self-sufficiency

This proposal includes the following unfunded near-term

minimal PMP and Sustainability components:

- Upgrade of Existing Financial Management System (FMS). Completed AS4/JDE Technical Upgrade December 2013. A follow-on upgrade to the system is anticipated and scheduled for 2019-2020. This second phase upgrade will involve a transition to JD Edwards Enterprise 1 operating on an Oracle or SQL Database.
- Terminal Operating System (TOS) PAG is planning for the installation of a TOS for improving terminal operations and integrating with the FMS. It is estimated that the initial TOS installation will be completed in early 2014. This work will occur using a 5-Year IDIQ contract that could include adding TOS enhancements, integrating it with a new GOS, and providing system support during contract duration. It is conceivable that final adjustments to TOS would therefore be completed no later than the end of 2018.

■ Gate Operating System (GOS)

After the new gate complex is developed and the TOS is operational, a GOS will be installed. It is proposed that the GOS will come online no later than the end of 2018.

■ Acquisition of Cargo Handling Equipment

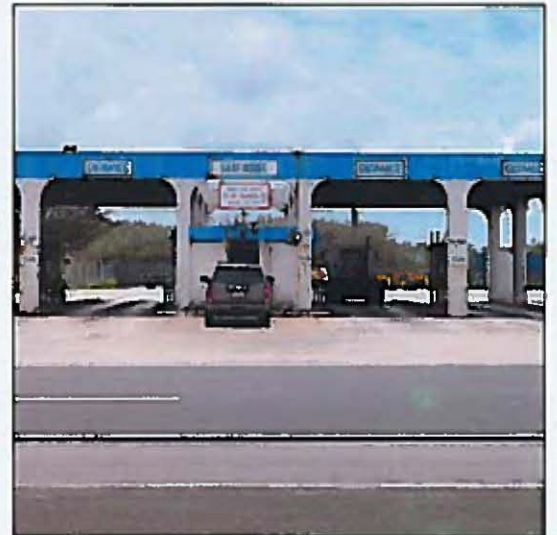
Purchase Replacement and Additional Yard Equipment: This is a combined improvement and sustainability project. It involves the progressive replacement of existing yard cargo handling equipment and the supplemental acquisition of additional equipment based on cargo handling demands as cargo volumes grows.

■ Inbound/Outbound OCR (optical character recognition) Portals and Canopies

These portals are located within the gate complex ahead of the automated gate lanes and pedestals. They assist in automated data collection for trucks, chassis and container boxes and improve gate processing time during the terminal entry and exiting processes.

■ Electrical Work for additional Reefer Outlets/Reefer Lights Installation

This project is for an additional fifty-six (56) 480V new reefer outlets to be located at the south side of the existing reefer outlets in Container Yard Area "P" and installation of reefer lights on the inside of the Concrete Masonry Unit (CMU) perimeter fence at the east & west sides of the Load Center 4 building.



Port Tariff Rules, Regulations and Rates- On May 20, 2013, PAG published its proposed rates reflecting a 5.65% increase to PAG's Terminal Tariff with the exception of the Bunkering/Fuel Throughput/waste Oil Rates and the Crane Surcharge. On July 19, 2013, PAG filed the petition with the PUC for the proposed rate increase vital for the generation of sufficient revenues to cover operating costs of the Port Authority, and service the Bank of Guam loan required for planned improvements of the wharfs, the acquisition of cargo handling equipment and the Financial Management Systems Upgrade. PAG anticipates PUC approval and implementation in FY2014.

Marina Renovations- Capital improvements at the Gregorio D. Perez "Hagatna" Marina was made through federal grants awards from the Department of Interior/Office of Insular Affairs and USFW. Subsequent to the project completion of the Hagatna Marina Renovation and Site Improvements – Phase I and Dock A repairs, the following projects were completed within fiscal year 2013:

- GDP Waterline Replacement
- Dock C Replacement
- Dock B Replacement
- Dock A and B Pile Extensions
- GDP Renovation & Site Improvements – Phase II

The Western Pacific Regional Fishery Management Council has recently awarded the Authority a \$250,000 federal grant to fund dock improvements at the Agat Small Boat Marina. The Authority has programmed to solicit and award this improvement project within fiscal year 2014.

Challenges Moving Forward

Procurement Delegation- The Port's procurement delegation is critical to the operations' efficiency and the modernization projects identified in the Master Plan. The Port will work on obtaining the delegation approval from the Chief Procurement Officer so it may purchase materials, supplies and services that are vital to the daily operations of the Port and also the Modernization Program Military Build-up.

The Port's Future—Challenges Ahead

Modernization Plan

In 2012, DOD announced a projected downsizing of the military build-up plans for Guam. The new mix of personnel relocating to Guam was reduced to approximately 5,000 Marines (one third permanent party and two-thirds rotational) and 1,300 dependents. The projected construction budget for projects on Guam dropped to about \$8.6 billion in 2012 dollars. The timeframe for implementing realignment was pushed back from 2010-2014 to 2016-2020. Complicating matters are the Federal budget sequester,

adjustments for progress on Japan projects, adjustment of the Okinawa consolidation to now include retaining some troops in Okinawa and expanding the U.S. realignment of departing Marines to now include positioning them in Hawaii and Australia. For these reasons, the pace of the Guam build-up is expected to be slowed further possibly pushing it to somewhere between 2020 and 2026 (when the Hawaii portion of the redistribution is scheduled for completion).

Layout of Yard

Storage Area Key

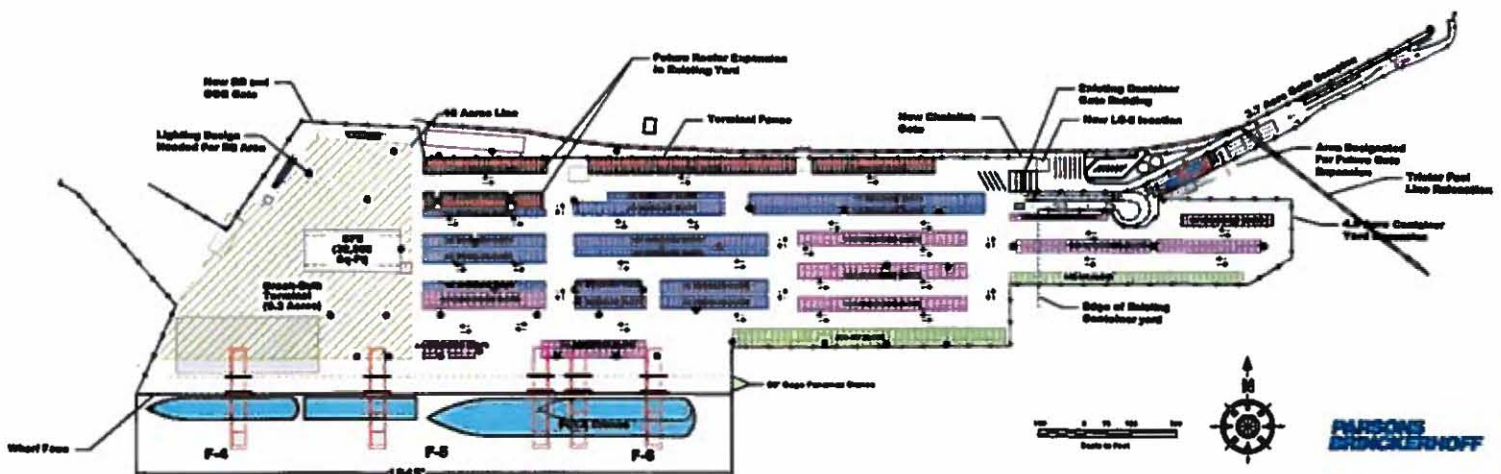
- MT: Empty Containers
- Full Wheeled Reefer Chassis
- Full Wheeled Chassis
- Grounded Containers

STORAGE AREA SIZES

884 Full Top-Pick TEU Grounded Slots
1015 Full Wheeled TEU Chassis Slots
431 Empty TEU Grounded Slots

TOTAL THROUGHPUT CAPACITY

3-4 High = 245,000 TEU/YR
4-5 High = 293,000 TEU/YR





PORT AUTHORITY OF GUAM

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