

The Virgin Islands Consortium

G.E.R.S. Gave Seaborne Airlines Loans Totaling \$4.8 Million Without Receiving Audited Financial Statements

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ST. CROIX -- The Government Employees' Retirement System's Board of Trustees has failed to protect the pension funds of government employees, a [wide-ranging audit](#) of the system's Alternative Investment Program (A.I.P.), conducted by the Office of the Inspector General (O.I.G.), has found. From providing an \$8.2 million loan to a [grocery store development](#) in St. Thomas despite being warned to steer clear of the deal by a financial consultant; a \$5.7 million [loan](#) to the franchise owner of the local Kentucky Fried Chicken fast food chain, Kazi Food, LLC, and not being able to give an account for how the funds were used; and expending, thus far, [over \\$27 million](#) on the Carambola Beach

Resort & Spa, a facility that continues to lose money.

The Board of Trustees also gave loans to Seaborne Airlines (full disclosure: Seaborne Airlines is an advertising partner of The Consortium), the first, on December 4, 2009, in the amount of \$3.3 million, and the second loan of \$1.5 million on November 2, 2012. According to the audit report, these loans were approved even as G.E.R.S. Administrator expressed concerns that the loan approval process did not meet industry standards.

The report says that in an email dated June 8, 2009, addressed to the Board of Trustees' chairman, the administrator detailed the following concerns:

- The company did not submit audited financial statements as requested.
- The most common ratios, current assets ratio and acid test ratio, revealed that the company was insolvent and could not pay its liabilities as they became due. A healthy current and acid test ratio should be 2.00 and above, but the company's ratio was 0.23.
- It could not be determined from the expenses in the income statement the amount of compensation paid to the officers of the company.
- There was no collateral of substantial value if the loan was made.

"When we questioned why the loan was granted, even though the airline did not provide audited financial statements, we were told that the reason was because the airline's former chief financial officer, who prepared the financial statements, was a certified public accountant," reads the O.I.G. report.

The report goes on to say that despite the reservations from the administrator and the non-receipt of audited financial statements, the airline received its original request for a \$3.3 million loan on December 4, 2009; then a modification that lowered the interest rate for \$2 million (of the \$3.3 million) on March 1, 2011.

It also revealed that in G.E.R.S.'s November 30, 2009 loan agreement with Seaborne Airlines, the company was required to maintain a minimum fixed charge coverage Ratio of 1.1:1 through December 30, 2011, and a lease adjusted total debt ratio of 6.25:1 through December 31, 2010 and 5.5:1 to December 31, 2011. Thereafter, they were required to maintain a fixed charge coverage Ratio of 1.5:1 and a lease adjusted total debt ratio of 4.5:1.

But Seaborne Airlines continued to default on its loan payments, and had to modify their covenant payments to return to compliance, according to the report. Seaborne was assessed an interest of \$87,450 between the months of March 30 and June 30, 2010. However, the Board of Trustees granted the airline a waiver, and recommended that it negotiate an amendment to the loan agreement to modify the existing covenants.

The report says that on December 31, 2010, Seaborne received another amendment to maintain a minimum fixed charge coverage Ratio of .5:1 through March 31, 2011; 1.0:1 through December 30, 2011; and 1.2:1 thereafter. They also received an amendment to maintain a minimum lease adjusted total debt ratio of 12:1 through December 31, 2010; 8.5:1 through March 30, 2011; 7:1 through December 30, 2011; and 6:1 thereafter.

"We found no record of any standards that were used by G.E.R.S. to determine the ratios, reads the report. "This was handled by the G.E.R.S. Administrator, the financial

advisor, and the G.E.R.S. Board of Trustees. At the completion of the amendment, G.E.R.S. waived the amendment fee of \$10,000, further depriving its members and the G.E.R.S. of receiving additional income."

Despite Seaborne Airline's continued defaulting, G.E.R.S. granted another loan of \$1.5 million November 2012 to assist with capital infusion and meet obligations. The airline made one late payment in April 2013 and made no payments thereafter.

"During this period, we found no record of collection action besides a letter issued to the airline on May 20, 2013, stating that they were in default of the financial ratio covenants and another letter to the airline on June 18, 2013, that it failed to pay principal or interest. Also, as of October 21, 2013, the airline had an outstanding balance of \$883,789 with the Port Authority for rent, operating fees, and finance charges," the report says.

In what was the a trending news item of its time, Seaborne Airlines announced on December 18, 2013, that it would leave the territory and move to Puerto Rico as its main base, straining a relationship with the Government of the Virgin Islands, and its governor at the time, John P. de Jongh.

"Like many Virgin Islanders, I am disappointed by this decision," Mr. de Jongh said in a statement. "The Government of the Virgin Islands and the residents of the territory have been very faithful to the airline, and we are feeling an emotional response to the company's decision and the resulting loss of jobs on St Croix."

But even before Seaborne relocated to P.R., G.E.R.S. was considering another \$3 million loan to the airline despite its delinquencies, covenant ratio defaults, and the debt with the Port Authority, the report says. And there was no information of file describing the methodology for determining that Seaborne was qualified for the new loan.

Before it left, however, Seaborne paid the overall outstanding amount of \$4.8 million on December 19, 2013 -- one day after its announcement to move -- which included fees and interests.

"This loan was not administered with the proper due diligence to protect G.E.R.S.' members and their beneficiaries," reads the report. "The airline's move to Puerto Rico resulted in the repayment of the outstanding loan along with the required interest. In our opinion, the decision to move to Puerto Rico saved G.E.R.S. from another poor loan decision."