

The Virgin Islands Consortium

WAPA Bonds Suffer Third Downgrade; S&P Cites Limited Liquidity And Debt Service Coverage

Business / **Published On July 27, 2016 08:27 PM /**

Staff **July 27, 2016**



Citing declining debt service coverage and liquidity due in part to [delayed payments on government-related accounts](#), another of the three rating agencies, Standard and Poor's (S&P), has lowered the electric system revenue bond ratings of the Virgin Islands Water and Power Authority.

The semiautonomous entity's bonds were downgraded in June [to junk status by Moody's](#), with the firm citing the authority's weak liquidity profile, the potential need to refinance around \$23 million in outstanding credit lines that mature by end of June 2016, and the potential for additional liquidity requirements in the form of a \$25 million payment to former fuel supplier Trafigura Trading LLC, which might materialize over the next 12

months.

The action by S&P Global Ratings on Wednesday is the third time in less than two months that the utility's bond ratings have been downgraded. "S&P has lowered its ratings on the electric system revenue bonds, with the senior lien debt dropping to "BB+" from "BBB-" and the rating on the Authority's subordinate lien debt falling two notches to "BB-" from "BB+"," said WAPA Interim Chief Executive Officer Julio A. Rhymer, Sr., adding, "And the outlook is negative."

The negative outlook reflects the electric system's weak liquidity position and low debt service coverage of all debt obligations.

Mr. Rhymer said the actions by S&P were not unexpected given the four-notch downgrade of WAPA's bond rating by Moody's Investor Services on June 2 and July 5. "In essence, Moody's downgraded WAPA's bond rating to junk status and the other agency, Fitch, had already taken action against our bond rating. The action is not surprising and yet again it underscores the most basic financial challenges facing WAPA each day, the lack of liquidity and high account receivables."

In explaining its rationale, the rating agency noted that "WAPA's finances are somewhat vulnerable. Accounts receivable remains a credit risk, although some progress has been made in the past few months, cutting the balance roughly in half as of June 30." S&P characterized the authority's unrestricted cash and investments at the end of Fiscal Year 2015 as low, with about 16 days of operating expenses; including amounts available from bank lines of credit, liquidity is only adequate.

Other factors which the rating agency viewed as credit weakness include:

Diminishing, yet still high dependence on oil which has resulted in high electric rates; High leverage, due in part to deficit financing linked to high oil prices the past several years which have kept overall debt service coverage levels low; A limited tourism based economy with below average income levels and heightened risk, given the system's high rates and global economic conditions.

Standards and Poor's credited WAPA with making strides in its plan to reduce oil dependence in its power generation fleet, seeking to improve efficiency at its plants and in its distribution network, and adding renewable energy sources such as solar power. The agency did note that the propane conversion project experienced delays and cost increases which will increase capital fees owed to the project's contractor over the next seven to ten years.

Looking forward, S&P outlined two possible scenarios. "We might lower the rating in the next one to two years if the electric system's liquidity does not improve. Also, we could downgrade the bonds if the system's structural budget imbalance worsens, or there is a significant increase in customer receivables, including from the government agencies." On the upside, the outlook could be revised to "stable" if the conversion of WAPA's generation fleet to propane produces costs that improve the Authority's rate competitiveness, and the system increases margins and reserves while improving its rate affordability.