

The Virgin Islands Consortium

GERS To Receive Over \$300 Million If Mapp-ArcLight Refining Deal Is Ratified

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A pension system on the verge of imminent collapse may find a piece of salvation within the [new agreement](#) between the Virgin Islands Government and ArcLight Capital to restart refinery operations on St. Croix.

How much money will the government make from the deal?

The unratified agreement provides for the processing of about 200,000 barrels of crude oil feed stock per day and is expected to bring the government millions in revenue each year.

Limetree Bay Terminals is slated to make annual payments to the government at a base rate of \$22.5 million, in lieu of taxes. Depending on the refinery's performance, that base rate could increase to \$70 million per year, but annual payments won't fall below \$14 million, Governor Kenneth Mapp said during a press conference at Government House Monday.

Mr. Mapp quoted industry consultants Gaffney-Cline and Associates when projecting a government revenue of more than \$600 million during the first 10 years of refining operations. This income will be added to the \$11.5 million that the government already collects annually from Limetree's oil storage operations. After refurbishing the facility for refining purposes, Gov. Mapp's administration is hoping that there'll be actual refined product on the market by January 2020.

I think those folks who are relying on their pensions for their livelihood could breathe a slight sigh of relief, and I want to assure them that we're not giving up on five years. We're gonna see the process all the way through. -
Governor Mapp

Should the deal with ArcLight become law, the company will make a [\\$70 million closing payment to the government](#) – \$30 million in exchange for 225 acres of land and 122 homes that the government acquired from Hovensa and \$40 million in prepaid taxes.

What would this mean for the Government Employees Retirement System (G.E.R.S.)?

The deal says that 50 percent of the annual revenues from refining operations will go directly to G.E.R.S. According to the governor, this should turn out to be about \$300 million during the first 10 years – if all goes as planned.

The entire deal still hinges on a legislative vote. The governor has called senators into special session on July 25 to consider and ratify the agreement.

Within his submission to the 32nd Legislature, Mr. Mapp is also proposing that the government will purchase the Havensight Mall and the ground lease for a Port of Sale property – both of which are currently owned by G.E.R.S.. If the purchase is successful, the Public Finance Authority (P.F.A.) would take ownership, and the West Indies Company (W.I.C.O.), P.F.A.'s subsidiary, would manage the properties.

If W.I.C.O. and P.F.A. were to acquire these assets, the government would be able to enter agreements with the territory's cruise partners or other entities and make more money than is currently being generated – a win-win for both the G.E.R.S. and the government, according to the governor.

After the purchase, G.E.R.S. is supposed to receive 50 percent of the annual net revenues from the mall and ground lease.

We don't have two and a half billion dollars to write a check and just solve the problem. - Governor Mapp

The P.F.A. is also supposed to make a \$25 million down payment out to GERS and enter a mortgage agreement with the entity at an 8 percent annual interest rate. According to

Governor Mapp, this interest rate is higher than the pension system's required rate of return.

Breakdown of What GERS is Slated to Receive from New Deal

- 50 percent of annual revenues from refining operations
- \$25 million down-payment from PFA (comes out of the [\\$70 million down payment from ArcLight](#))
- 50 percent of Havensight Mall revenues
- Mortgage payments from PFA at 8 percent interest rate annually

Over the next 10 years, the Mapp administration projects that this will give the system a \$380 million injection in total.

There are also plans for the system to receive 50 percent of revenue that the government will secure in exchange for investing with Island Global Yachting into the development of a [110-room, upscale hotel at Yacht Haven Grande](#).

Will it be enough to save the system?

The plan won't be enough to completely save a pension system that's billions of dollars in debt, the governor said Monday. However, the plan is expected to add about five more years to the life of a system presently headed towards complete insolvency in 2023.

"We don't have two and a half billion dollars to write a check and just solve the problem," Mr. Mapp said.

But progress could be made with the \$380 million injection from the new deal and the provisions from a separate measure he's already submitted to the legislature for review, according to the governor. The separate measure includes plans to increase the government contribution to the system by 3 percent each year for the next three years and plans to increase the contributions of employees who make more than \$65,000 annually. The combined plans should give G.E.R.S. between \$453 and \$475 million.

Actuaries have predicted that it will take about \$100 million per year to keep G.E.R.S. afloat. And with plans underway to inject close to \$500 million, it will give the system about five more years of solvency, Governor Mapp said.

All plans are still pending legislative approval.

While plans from the administration won't act as a complete savior, the governor said it would give stakeholders "some breathing space to rationally find a permanent solution to restore G.E.R.S. to full solvency." He said that based on information received from public pension advisors at Greenberg Traurig, he believes that G.E.R.S. would one day be able to pay all its debts and that his administration looks forward to "working that through with the community."

"I think those folks who are relying on their pensions for their livelihood could breathe a slight sigh of relief," Mr. Mapp said, "and I want to assure them that we're not giving up on five years. We're gonna see the process all the way through."

Seeing the process all the way through will involve what the governor described as “purchasing chunks of solvency” through more business deals that will generate revenue. Sharing the revenue with G.E.R.S. is an alternative to imposing more taxes, the governor said.

He also said that the bill he’s sending to the senate asks for four members with five or more years of finance and investment management experience be added to the G.E.R.S. board of directors.

The proposed bill also puts the government in a high power play position as its revenue will be used to bail out the system. It asks the legislature to restrict the G.E.R.S. board from reducing member benefits without written consent from the V.I. government.

“Because we don’t want to be putting dollars into the system and those dollars are going to have the same result [as] dollars we’ve put in the system in the past,” the governor said. “We are going to work to save the system so folks at the system are going to have to step back, in terms of the managers, and work along with the planned sponsor – the government – for the salvation of the system.”

[View the original embedded media](#)

Correction: July 3, 2018

A previous version of this story, because of a text error, referred to the West Indian Company (WICO) as the "West Indian Corporation". We've updated the story.