The Virgin Islands Consortium

Territory's Cashflow Problem Also Cause Of Slow Disaster Recovery, Officials Say

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Ernice Gilbert April 04, 2019

While senators during a Finance Committee hearing on Tuesday assailed officials of AECOM, the government's prime contractor for disaster recovery work in the territory, and Witt O'Brien, the consulting firm in part responsible for ascertaining that recovery dollars are spent properly, there was another problem slowing the territory's recovery: the local government's cashflow problem.

In simple terms, when FEMA says it has awarded, say $100 million to a jurisdiction, this $100 million is only provided to the jurisdiction with proof that the jurisdiction has already paid the $100 million to whomever it is owed. In essence, FEMA reimburses upon proof of payment. But the Government of the Virgin Islands, which has been operating on days cash on hand and has long had cashflow problems, simply does not have hundreds of millions of dollars sitting around waiting to pay AECOM, which in turn could pay subcontractors hired for the territory's recovery.

Hence the delay in recovery work, as AECOM's contract with the government includes advance mobilization payment from the territory, which the G.V.I. has not been able to fulfill.

"In order to initiate the program and expedite the early- stage repairs for the people impacted by the hurricanes, AECOM secured a $30 million credit line with banks. By June 2018, this $30 million credit line was fully exhausted because of the delay of initial program funding," said Randall K. Taylor, senior vice president and chief operating officer of AECOM’s southeast region, during the Tuesday hearing. "The credit line was intended to bridge the initial delay in payments from the Virgin Islands Housing Finance Authority and was not intended to replace actual funding for four months. AECOM was not paid for nearly 5 months. With the credit line exhausted, AECOM had to use its own cash resources to continue to fund the program."

In fact, AECOM said it had to pay advances to subcontractors before receiving any pay from the government -- a breach of contract -- totaling $43 million, which was in addition to the company's own operational expenses, including employee payroll, benefits, travel, lodging, car rental, administrative support, offices, material warehouses, among other costs.

"At one point, AECOM’s working capital position reached negative $100 million for the completion of this safe and stable home repair program, because the majority of payments we have received to date have been paid out to subcontractors and material suppliers," Mr. Taylor said. "No other company working towards the Virgin Islands' recovery has placed such a large personal investment into this program. Similarly, our subcontracting team has carried the additional costs in the absence of program funding."

To date AECOM has been paid $169 million, the company said at the Finance Committee hearing, although it has billed $370 million, with another $70 million to $80 million still outstanding.

V.I.H.F.A. Executive Director Darryl Griffith said the current reimbursement FEMA setup works to the disadvantage of the financially strapped local government. "Despite the success of repairing approximately 7,200 hurricane damaged homes in 13 months, the FEMA-funded Emergency Home Repair Virgin Islands Program has been handicapped in the territory in large part due to its design as a reimbursement program -- meaning the Government of the Virgin Islands is expected to front millions of dollars and then apply to FEMA for reimbursement. This is an extreme disadvantage to a cash flow-challenged jurisdiction such as the Virgin Islands with little to no emergency cash reserves," Mr. Griffith said.

Senator Donna Frett-Gregory said during the hearing that she would soon introduce a bill seeking a line of credit with local banks with the aim of addressing the problem. A secured credit line is one in which the borrower uses an asset as collateral to secure the loan. The lender can seize the asset if the borrower doesn't repay the debt according to the terms.

"We are ready to move, we just need to figure out what that number would look like," she said. "I'm asking my colleagues to support this initiative so we can resolve any outstanding issues that we have."

Feature Image: St. Thomas after Hurricane Irma. (Credit: Reemy-Reemz Photography)