The Virgin Islands Consortium

After Downgrade, Moody's Hits WAPA With Negative Outlook

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Ernice Gilbert October 06, 2019

The Virgin Islands Water and Power Authority has been on a public relations blitz. Its CEO Lawrence Kupfer has been making the rounds on multiple radio stations to sell to Virgin Islanders that WAPA leadership has a plan to save the beleaguered, crisis-point authority.

The most prominent portion of Mr. Kupfer's pitch is WAPA's request to the Public Services Commission to once again burden Virgin Islands ratepayers with yet another increase to the base rate charge, with the monies, according to WAPA, being used this time to secure a major debt-restructuring bond that would see it paying firms like Vitol and others at a lower rate, and hence keeping the utility alive. Mr. Kupfer also cites federal dollars for infrastructure hardening and to purchase new generating units as bright spots in the authority's overall plan.

Even so, Virgin Islanders, the PSC and lawmakers distrust WAPA. Senators derided authority executives during a Tuesday Committee of the Whole hearing, and on Thursday the PSC once again delayed WAPA's base rate increase request. Part of the distrust is WAPA has used base rate increase funds for unintended purposes.

Yet even if WAPA were to receive the base rate increase, which Mr. Kupfer said is needed before an investor decides to provide tens of millions of dollars to the authority, a major, lingering question is whether WAPA would be able to secure the bond in light of a downgrade from U.S. ratings firm Moody's, a negative watch from Fitch, and now, a negative outlook from Moody's.

Moody's on Thursday, Oct. 3 gave WAPA a negative outlook, stating "VI WAPA's credit profile is constrained by very weak liquidity, very high electric rates, growth challenges within the economy, and the recent high frequency of power outages."

Bondholders pay kin attention to actions taken by the ratings agencies. Moody's downgrade of WAPA bonds further into junk status in September, highlighted a number of troubling factors: WAPA's default risk "has increased given an unsustainable capital structure with very tight liquidity, high debt load including a substantial unfunded pension liability, the increased frequency of power outages, reducing the reliability of the electric system, high electric rates, and chronic challenges facing the economy," Moody's said.

In the September action, Moody's also said, "WAPA’s capital structure is unsustainable without improvements in WAPA’s operating cash flow generation, given the weak liquidity profile with no unrestricted cash on balance sheet and use of overdrafts to manage liquidity, and a history of difficulties to pay fuel suppliers on time. A temporary surcharge for additional leased generating units was approved earlier this year but the authority’s retail rates are the highest among US states and territories, and resistance against future rate increases could increase if WAPA is unable to restore the reliability of the electric system in the near term, particularly given the chronic economic challenges."

Even so, one Virgin Islands leader has stood behind the authority staunchly, believing in WAPA's plan to save itself from collapse. Governor Albert Bryan – virtually alone as an influential, public advocate of WAPA – has even said negative comments from local elected officials about WAPA erodes the confidence of investors already skeptical about the Virgin Islands infrastructure and overall financial stability.

“We have had several investors come to the table. And every single time someone opens their mouth to make a disparaging comment about WAPA, we start over again,” Mr. Bryan said. “And that’s making it more difficult” to put potential investors in the territory at ease.

During the Tuesday hearing, however, WAPA officials were blasted for incompetence, failure to be forthcoming on a number of matters, and for wasteful spending. Senate President Novelle Francis said the exhaustive questioning during the hearing left him and his colleagues with “ … many, many unanswered questions.”

It was revealed that WAPA was paying $11,000 monthly for a St. Thomas facility it had not been utilizing; the authority was also paying $41,000 monthly for a building it was not utilizing (WAPA, according to Sen. Janelle Sarauw, was using a small building on the side of the main facility that it was paying the bulk of the $41,00 for), and the authority's executives had twelve credit cards to their disposal as of Tuesday. Additionally, it was revealed that WAPA executives get paid more than $2.3 million annually.

Senator Kenneth Gittens, whose roasting of the WAPA executives has been viewed by more than 20,000 people on the Consortium's Facebook platform, had had enough.

“We have some 17 to 19 at the top tier of the authority,” said Mr. Gittens, mentioning the annual salary amount to be more than $2 million. “And we pay that every payday. Nineteen people in the top tier, 17 of which are paid in the six digits.”

“I don’t want no damn excuses from people making six figures; we need answers. And to sit here and say that the only solution is to raise the rates is a damn slap in the face. Maybe everyone of you need to go home from top to bottom. That is the restructuring that we need at the authority,” Mr. Gittens jabbed.