Fitch Rating Agency Maintains Negative Watch on WAPA, Citing Potential for Gov't Oversight, Heightened Default Risk

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U.S. Rating Agency Fitch on Monday maintained its negative watch rating on a number of WAPA bonds, pointing to the potential for government oversight of the authority and the heightened default risk on covenants.

The negative watch rating of CCC was maintained on WAPA's $91.49 million electric system revenue bonds; $86.40 million electric system subordinate revenue bonds; and the Issuer Default Rating (IDR), according to Fitch.

In its analytical conclusion, Fitch said, "The Rating Watch reflects the ongoing prospects for additional governmental oversight of WAPA, which could adversely affect operating performance and increase the authority's vulnerability to default. The U.S. Virgin Islands legislature recently approved a bill granting the Virgin Islands Public Services Commission greater regulatory and operational oversight of the authority. Despite being vetoed by the governor, Fitch's concerns remain heightened by the scope of the legislative initiative, which includes the development of a debt consolidation and management plan, and the possibility that such a plan could increase the likelihood of a distressed debt exchange. Fitch expects to resolve the Rating Watch following resolution of the prospective oversight issues, as well as receipt of the fiscal year 2019 audit."

Fitch further stated that the 'CCC' rating continues to reflect "heightened default risk as a consequence of WAPA's exceptionally weak cash flow and liquidity."

Based on unaudited information provided by WAPA, the authority maintains modest amounts of cash on hand and borrowing capacity that is insufficient to service the full amount of scheduled maturities over the long term, Fitch said.

Governor Albert Bryan during his Monday press briefing expressed concern with WAPA's financial condition, though he highlighted as a bright spot federal dollars being utilized to harden the territory's electric system through undergrounding of critical power infrastructure. On WAPA's financial woes, Mr. Bryan said in response to a Consortium query, "At this point WAPA's main problems are on the finance side. We have a situation with VITOL where we have to restructure the financing on the money that we owe them and we have to pay them monthly. You have a situation in terms of the cashflow; people are using less electricity since the 2017 hurricanes."

Fitch said external financing remains necessary for WAPA to meet maturing bond anticipation notes that mature July 1, 2022, "and to address the continued deferral of scheduled bank repayments, as well as other obligations."

It added, "The availability of such financing remains questionable. Additionally, while operating cash flow appears to have stabilized in fiscal years 2020 and 2021, continued challenges related to the travel and tourism sector and the demand for electricity throughout the USVI, clouds WAPA's performance further."

WAPA declined to comment.