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Virgin Islands Utility Closes Debt Sale

Power monopoly considers more debt sales while central government shelves financing plans

Tourists walk in Christiansted on St. Croix. The U.S. Virgin Islands power monopoly will use proceeds from a debt sale to help shift its power generation to propane. PHOTO: ALVIN BAEZ/REUTERS

By Andrew Scurria
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The U.S. Virgin Islands power monopoly closed the first tranche of an $85 million debt raise, a step in its push to lower energy costs for the U.S. territory's 105,000 residents.

The Virgin Islands Water and Power Authority, or WAPA, privately sold $15 million in debt on Thursday to Saybrook Fund Advisors LLC and expects to place another $20 million within 60 days. The debt sale will finance construction of a 21-megawatt plant on the Caribbean island of St. Thomas, a cornerstone in WAPA's plan to shift its power generation to liquefied propane from oil.

The deal shows the debt markets are still open to WAPA even after its financial health cratered over the past year, taking its credit ratings into junk territory. As of January, it was operating with a week's worth of cash on hand, according to Moody's Investors Service.

While the Virgin Islands and its public corporations have never defaulted on their debt, their financial woes are top-of-mind for investors in the U.S. municipal bond market following the financial collapse of Puerto Rico, a Caribbean neighbor 80 miles away. The two U.S. territories are both struggling with high debt levels, spiraling pension obligations and outdated infrastructure, although Puerto Rico's fiscal pressures are far more acute.

WAPA, the sole power provider to most of the Virgin Islands, is benefiting from favorable borrowing conditions driven by strong demand for high-yield bonds. The new debt was sold with a 10% interest rate that will increase if WAPA can't refinance within three years, said Jeff Wilson, co-managing partner at Saybrook.

The utility is also seeking a $30 million working-capital loan and a sale of water-revenue bonds, according to people familiar with the matter. Its energy infrastructure modernization program revolves around eliminating diesel oil as the primary fuel in favor of cheaper and cleaner propane, a bid to lower power costs for consumers and jump-start the local economy.

“They really seem to have a handle on how to navigate the turnaround of the utility,” Mr. Wilson said.

A WAPA spokesman didn’t respond to requests for comment.

WAPA relies on the Virgin Islands Public Services Commission to set customer rates that cover the cost of generating and distributing power. In June, the regulator approved a $15.8 million annual rate increase to support the propane conversion. The following month the PSC gave the green light to WAPA’s plans, previously reported by The Wall Street Journal, to borrow up to $85 million.

Most of the financing package, earmarked for additional generating units, has yet to be sold. The new power units, engineered by technology group Wärtsilä Energy Solutions, are projected to come online in early 2018.

Raising fresh capital has been more difficult for the Virgin Islands central government, which recently shelved a $40 million short-term financing deal with Banco Popular, a government spokesman said. Twice in the past eight months, the Virgin Islands tried and failed to sell long-term debt as investors grew nervous about its ability to revive its economy.

It has increasingly relied on bond proceeds in recent years to paper over operating deficits, raising its debt levels close to Puerto Rico’s on a per capita basis. A five-year plan adopted by the Virgin Islands in December calls for raising property taxes, timeshare fees and sin taxes on cigarettes and alcohol while improving revenue collection and cracking down on past-due taxes. The proposed 2018 budget doesn’t envision a return to the bond market.

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