THE BOND BUYER

# Virgin Islands announces $1.4 billion investment

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The U.S. Virgin Islands said it agreed to a $1.4 billion investment to reopen an oil refinery and estimated that the transaction would boost government revenues by more than $600 million over the next 10 years.

Gov. Kenneth Mapp, in announcing the agreement with ArcLight Capital Partners on Tuesday, said he was proposing legislation to the Senate to mandate that half the revenue would go the Government Employees Retirement System. In January Moody’s Investors Service said that as of Sept. 30, 2016 the island’s government had a Generally Accepted Accounting Principles net pension liability of $4.6 billion, which it described as an “extremely large.”

The legislation would also include the sale of retirement system-owned mall and property to the Virgin Islands Public Finance Authority. After the sale, the system would get half of net revenues from the mall and rental payments from the property. The system would extend a mortgage to the authority with an 8% interest rate.

All told, the retirement system would be expected to gain $380 million over the next 10 years, Mapp said. The deal alone would push back the date the system was expected to run out of money by five years. This would add to another recent Mapp proposal for adding to the retirement system’s solvency.

The developments will provide “some breathing space to rationally find a permanent solution to restore GERS to solvency,” Mapp said.

The closing of the St. Croix oil refinery in early 2012 cost 2,000 workers their jobs and pushed the islands into an economic decline that lasted through 2016.

Moody’s Investors Service was cautious about the announcement. “If an agreement to restart the refinery goes through, it is uncertain to what extent the government will benefit,” said Ken Kurtz, senior vice president at Moody’s Investors Service. “Revenues may fall well short of expectations. And, to the extent the government receives revenues upfront, this would represent a continuation of its long term practice of relying on one-time revenues instead of moving toward structural balance."

A Virgin Islands spokesman said Moody's was wrong. "There is no question that the deal to restart the oil refinery will provide a major infusion of capital into the territory for years to come, and not a one-time benefit. It will create 1,200 new construction jobs, 750 new permanent jobs, as well as produce significant revenues for the government of the USVI."

The estimated $600 million of revenues would be payments in lieu of taxes from the refinery over the next 10 years. The reopening and operations of the facility would also contribute to the local economy and this would also lead to increased government revenues. The government hasn't made an estimate of this effect.

Moody's rates the islands' senior lien matching fund revenue bonds Caa2. S&P Global Ratings and Fitch Ratings withdrew their ratings of the Virgin Islands' central government bonds after it stopped sharing financial information with them.

If the debt of the island's financially-distressed Water and Power Authority is included, the Virgin Islands has over $2 billion in debt outstanding.

ArcLight, which has been running the Limetree Bay Terminals in St. Croix, agreed to restore the oil refining operations next to Limetree storage facilities.

As part of the agreement a 110-room hotel will also developed in St. Thomas, another of the U.S. Virgin Islands. This would be the first new hotel built in the territory in decades.

Mapp is calling for the Senate to go into special session on July 25 to consider and ratify the agreement.

Mapp said the agreement had been under works for two years and required a great deal of work with the federal officials.

"More work remains to be done, but this agreement allows the Virgin Islands to accelerate its recovery, grow its economy, create jobs for its people, propel new startup businesses, as well as support existing businesses and ultimately provide revenues for our government and our retirement system," he said.