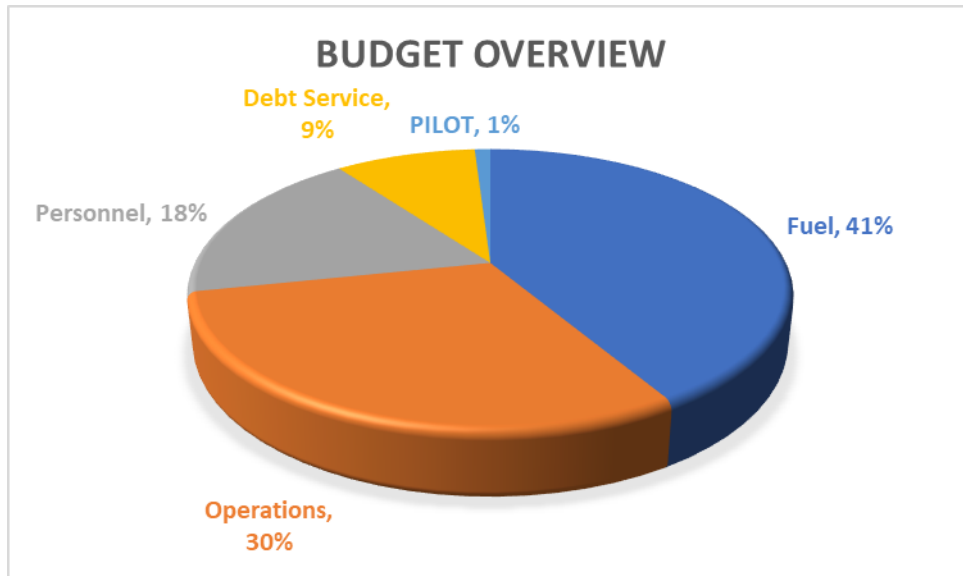


TESTIMONY OF KARL KNIGHT  
EXECUTIVE DIRECTOR OF THE  
VIRGIN ISLANDS WATER AND POWER AUTHORITY  
TO THE COMMITTEE ON BUDGET, APPROPRIATIONS, AND FINANCE  
36th LEGISLATURE OF THE U.S. VIRGIN ISLANDS  
JULY 16, 2025

Good day Honorable Novelle E. Francis, Jr., Chair of the Committee on Budget, Appropriations, and Finance, members of the Committee, other Honorable Senators present, and the listening and viewing audience. I am Karl Knight, Executive Director and Chief Executive Officer of the Virgin Islands Water and Power Authority (hereinafter “WAPA” or the “Authority”). Joining me today are members of the Authority’s senior leadership team: Chief Financial Officer, Lorraine Kelly; Chief Operating Officer of the Electric System, Lemuel Lavinier; and interim Chief Operating Officer of the Water System, Don Gregoire. We are here at your invitation to present the proposed Fiscal Year 2026 budget for the operations of the Virgin Islands Water and Power Authority.

## **Budget Overview**

The fiscal year for the Virgin Islands Water and Power Authority runs from July 1 to June 30. The Authority is operating on a month-to-month extension of its FY 2025 budget while the Governing Board considers management's recommendations for FY 2026. The proposed FY 2026 budget being considered by the Governing Board anticipates \$325.2 million in revenues. The proposed expenditures to be disbursed from operating funds amount to \$346.8 million. This includes \$30.8 million in debt service and \$500,000 for Payment in Lieu of Taxes (PILOT). The Authority expects at least \$2.5 million additional federal reimbursement for administrative costs associated with FEMA-funded disaster recovery projects. This budget anticipates a budget shortfall of approximately \$19.1 million in the upcoming fiscal year. These figures assume no rate reductions (i.e. revenue cuts) over the next 12 months.



## Fuel Expenses

The Authority employs two types of fuels for power generation at its facilities: liquefied petroleum gas (LPG) and light fuel oil (diesel). The proposed Fiscal Year 2026 budget projects fuel expenditures of approximately \$141 million, accounting for 43% of anticipated revenues. In comparison, actual fuel costs in Fiscal Year 2025 exceeded \$165 million. The expected decrease in expenditures is attributed to increased plant efficiency at the Harley Plant due to the addition of Phase II Wartsila engines, a full year of production from both the Petronella and Hogensborg solar farms and current lower spot rate fuel prices, which analysts project to remain at current rates in the short-term.

## Operating Expenses

For Fiscal Year 2026, proposed operating expenses (excluding personnel and fuel) are projected to just exceed \$104 million, making up 30% of total planned spending. The primary cost drivers within this category include generator maintenance, procurement of materials and supplies, and the operation and maintenance of the propane terminals.

## Personnel Expenses

The Authority's proposed personnel expenses for Fiscal Year 2026 are approximately \$61.3 million or 17.7% of expected expenditures. As of June 2025, the Authority had 522 full-time permanent employees. As a cost reduction measure, the FY 2026 budget proposes the elimination of 36 vacant positions and an associated \$2.2 million in personnel costs. Additionally, it proposes that six positions currently funded through operating funds be transferred fully to federal grant funding. The budget does include eight new positions for

tree trimmers that will support the restoration of the internal vegetation management program this year.

Position Classifications	No. of Employees
Management	63
Confidential	42
VI Worker's Union (Supervisors) (VIWU)	58
Professional & Technical Union (P&T)	69
WAPA Employee Association (WEA)	290

## Debt Service

Besides fuel, operations, and personnel costs, debt service payments currently constitute the fourth largest expenditure category for the Authority. For Fiscal Year 2026, debt service is projected to total approximately \$30.8 million, accounting for 9% of anticipated expenditures. This figure does not include the debt obligations financed through the gasoline tax revenues.

## Fiscal Challenges

In recent years, the Authority has operated with a structural deficit, meaning that revenue collections have not been sufficient to meet essential operating expenses. This shortfall is primarily attributed to LEAC rates that do not fully recover the Authority's actual fuel expenditures. The Public Services Commission has permitted the Authority to include only \$0.33 per gallon in transportation costs for LPG within the LEAC rate over the past several years. In contrast, the Authority currently incurs transportation costs of \$0.59 per gallon under its LPG contract and, on occasion, these costs have been even higher.

Between Fiscal Years 2021 and 2025, the Authority collected \$639 million in LEAC revenues from customers while incurring more than \$766 million in fuel costs, resulting in a cumulative deficit of over \$147 million. This shortfall would have been greater without the \$77 million in fuel subsidy provided by the central government during this period. Notwithstanding assertions by the Public Services Commission, these figures represent real invoices that necessitated real cash outlays pursuant to the existing contract terms.

The Authority has addressed the structural deficit by postponing major maintenance on generating units and deferring payments to vendors. When combining the Authority's accounts payable and the estimated deferred maintenance costs, the total closely aligns with the amount unrecovered in fuel charges.

## Fiscal Year 2025 Revenue Shortfall

The Authority operated with a monthly cash deficit of as high as \$8 million in Fiscal Year 2024 and was able to reduce this to an amount ranging from \$3 million to \$3.5 million throughout Fiscal Year 2025. In practical terms, this indicated that expenditure exceeded revenues by an average of \$3 million to \$3.5 million each month in FY 2025. Consequently, the fiscal year concluded with a cumulative shortfall between \$36 million and \$42 million. To mitigate these deficits, the central government provided over \$16.5 million in strategically allocated subsidies, primarily directed toward fuel and vendor payments. These interventions were instrumental in reducing operating deficits to more manageable levels during the first half of Fiscal Year 2025.

Following the end of the State of Emergency in December 2024, central government fiscal subsidies ceased. The Authority operated without subsidy for the final six months of its fiscal year. However, the earlier financial support provided the Authority with valuable time to implement key strategic initiatives that have permanently reduced its structural deficit and the projected Fiscal Year 2026 budget shortfall. These initiatives include:

- 18 megawatt-hours of battery storage at the Randolph Harley Power Plant
- 36 megawatts of new fuel-efficient generation (Wartsila Phase II Project) at Randolph Harley Power Plant
- 10 megawatts of solar energy and 8 megawatt-hours of battery storage at the Petronella Solar Farm on St. Croix.
- 12 megawatts of solar energy and 18.4 megawatt-hours of battery storage at the Hogensborg Solar Farm on St. Croix
- A new more cost-effective supply contract for Light Fuel Oil (diesel)

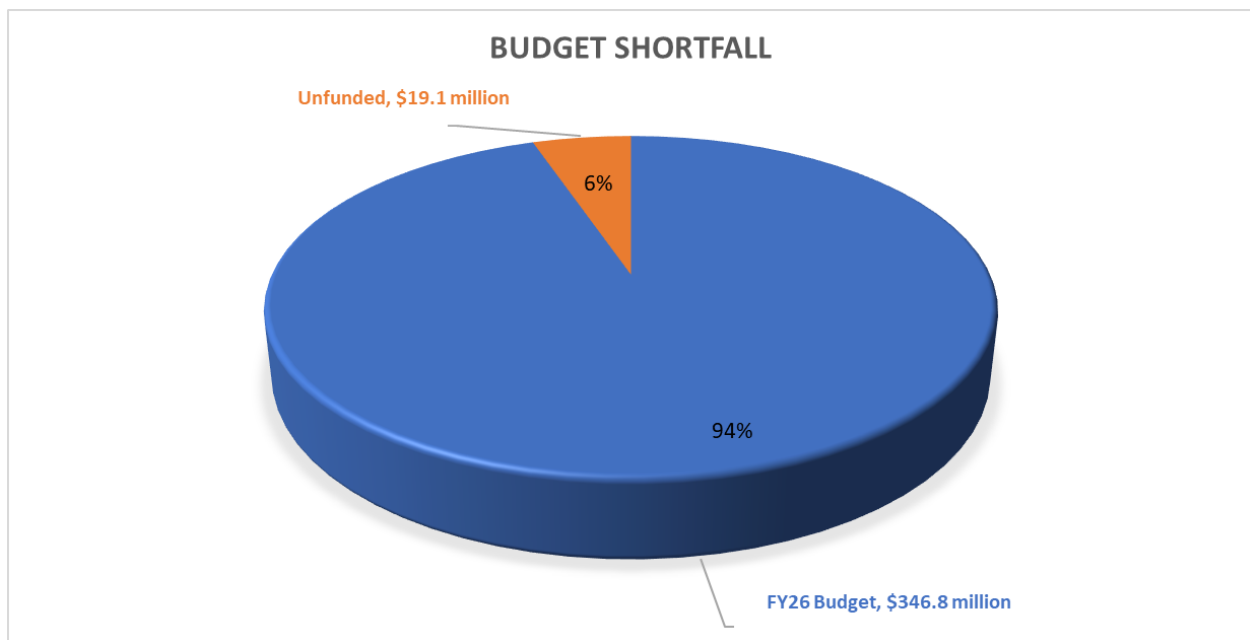
These initiatives were all effectuated over the last 12 months within Fiscal Year 2025.

## Potential Fiscal Year 2026 Revenue Shortfall

The anticipated budgetary shortfall for Fiscal Year 2026 has decreased to \$19.1 million. If this projection is accurate, the Authority has reduced its structural deficit by more than 50% in the last year alone. The projected shortfall represents less than 6% of the proposed budget. In other words, over 94% of the Authority's Fiscal Year 2026 expenditures are expected to be funded fully by the anticipated revenues. However, the potential shortfall means that the Authority must implement additional strategic initiatives to close the funding gap during the next 12 months. Thankfully there are great opportunities ahead to do so and to achieve this objective, we are pursuing several initiatives, including the following:

- A new more cost-effective LPG fuel supply contract
- FEMA reimbursement for Tropical Storm Ernesto related expenditures
- Commissioning of the new Fortuna Solar Farm
- Reduced water line losses
- Improved meter reading and billing accuracy
- The sale of scrap metal as older equipment is decommissioned
- Legislative actions in support of WAPA's fiscal recovery

The Authority is confident that if these initiatives are successfully implemented, the anticipated budget shortfall will be substantially reduced or possibly eliminated by the close of the fiscal year. Of course, once again, this projection assumes no increase in fuel product costs which are determined by the fuel market, or rate cuts over the next 12 months. Any rate cut would only serve to diminish the Authority's operational capacity and further impede its ability to pay vendors for services rendered, thereby undermining its ability to provide reliable service to the residents and businesses in the Virgin Islands.



## Accounts Payable

These shortfalls have essentially been managed up to this point by deferring maintenance and other critical expenditures. The current operating account past due payable balance is \$104.1 million, including:

- \$7.4 million owed to approximately 185 local vendors
- Approximately \$2 million owed in customer refunds

## **Requests for Legislative Action**

For most of its existence the Virgin Islands Water and Power Authority has not required any support from the General Fund beyond the government simply paying for services rendered. The Authority generally supports itself through its own revenue collections, federal grants, and floating bonds. In prior years, the appearance of the Authority at budget hearings in the Senate was just a formality. However, given the precarious fiscal state of the Authority we will take full advantage of the opportunity to discuss potential legislative action to support the Authority's fiscal stability. There are several measures that the Senate can introduce that would help offset the Authority's anticipated Fiscal Year 2026 deficit.

### **Full Payment for Streetlighting Services**

In Fiscal Year 2025, the Authority submitted to the Department of Finance monthly invoices totaling \$7.4 million for the operations and maintenance of the streetlighting system in the Virgin Islands. The Department of Finance only released \$2.7 million in payments, resulting in a \$4.7 million revenue shortfall. This persistent underfunding of the streetlighting system is a contributing factor to the ongoing structural deficit of the Water and Power Authority. A permanent solution is required.

The Authority has 16,427 streetlights deployed along the roadways of the U.S. Virgin Islands; 6509 on St. Thomas, 664 on St. John, and 9254 on St. Croix. Approximately 1,500 of those lights are 250W sodium vapor luminaires, the balance are 99W LEDs. The Authority tracks its inventory of streetlights through its GIS mapping system. The calculations of the cost associated with streetlighting are not arbitrary and the government's funding of the streetlighting system should not be arbitrary. The Authority humbly requests an annual budget appropriation to reconcile the difference between what the amount billed and the level of appropriations that the District Streetlighting fund can sustain to include requests for additional permanent streetlights as well as requests for temporary special events such as Carnival.

### **Adjust Legislatively Mandate of 30-Day Meter Reading Cycle**

30 V.I.C. § 125(a) mandates that electric meters must be read at least once every month within a 30-day cycle. This provision does not consider that certain months have more than 30 days, occasionally requiring the Authority to conduct meter readings twice in one month. Additionally, this statute effectively necessitates that meter readings occur nearly every day,

including weekends and holidays, to ensure compliance. As a result, there are unavoidable increases in overtime for meter readers and meter reading edit clerks. Furthermore, if meter readers are unable to access certain routes within 30 days of the previous reading, entire routes sometimes need to be estimated. The Authority respectfully renews its request for an amendment to extend the meter reading cycle to a maximum of 35 days, consistent with common industry practices.

## **Modify Statute Regarding Back-Billing**

30 V.I.C. § 127(a)(2) restricts the Authority from back-billing customers for more than one billing cycle (not exceeding 30 days) when billing errors or omissions are identified. Although this provision is designed to protect consumers, it inadvertently provides an undue advantage to customers, especially large customers, who may benefit from underbilling without being required to pay for electricity or water already consumed. As a result, the Authority incurs a loss through reduced revenues. Conversely, when customers are overbilled, the Authority consistently applies credits to their accounts regardless of when the error is discovered.

The Authority respectfully recommends amending the statute to permit error corrections within three billing cycles for residential and small commercial customers, and within twelve billing cycles for large commercial and industrial customers. Furthermore, the Authority would agree to automatically provide payment plans for the back-billed amounts for those affected by billing errors and to waive late fees for a reasonable time on adjusted balances.

## **Implement a Customer Charge for the Water System**

Currently, water system customers are not subject to any customer charges. In contrast, electrical service customers are assessed a flat monthly fee of \$4.86, irrespective of usage. The Authority ensures water service connections are always available to both residential and business customers, regardless of water consumption levels. However, maintaining these water lines comes with a cost to the Authority. As such, the Authority is pursuing legislative approval to institute a flat customer service charge for water customers, not to exceed \$5.00 per month.

## **Place a Cap on Liability for the Authority**

The Virgin Islands Water and Power Authority, unlike most other public sector entities in the territory, remains exposed to unlimited tort liability. This unchecked exposure places the Authority at constant financial risk, leading to costly litigation, higher insurance premiums, and fiscal instability, all of which ultimately burden ratepayers. To align WAPA with peer institutions such as the Port Authority, Waste Management Authority, and the University of

the Virgin Islands, a statutory tort liability cap of \$75,000 per occurrence is proposed, with exceptions for gross negligence. Introducing such a cap would help contain legal costs, stabilize operations, and protect the Authority's ability to deliver essential services without undermining legitimate claims or public accountability.

## **Disconnection Fees**

As previously communicated to this body, most service disconnections for nonpayment are performed either in the field by meter service personnel or remotely by customer accounts staff. In certain situations, however, disconnections must be executed at the power pole by a line crew. Such instances typically involve suspected theft of service, criminal activity, or circumstances where field personnel safety is at risk. The current statutory disconnection fee of \$25 does not adequately compensate for the costs associated with dispatching a bucket truck and a full line crew for these cases. Accordingly, the Authority respectfully requests that the law be amended to permit the charging of up to \$275 for disconnections conducted from the pole, to better reflect the actual costs incurred.

## **Competitive Bidding**

30 V.I.C. § 116 establishes a cap on purchases and contracts requiring competitive bidding for the Virgin Islands Water and Power Authority. Enacted in 1964, the statute's current threshold of \$10,000 has become increasingly impractical due to rising costs for materials, labor, and services. This low threshold obligates the Authority to undergo extensive bidding procedures for routine expenditures, resulting in delays to essential projects and imposing additional administrative burdens.

Accordingly, the Authority requests an increase in the threshold to \$150,000. This adjustment would streamline procurement processes for smaller contracts while preserving competitive bidding requirements for larger expenditures.

## **Subsidize the Increase in Minimum Salary to \$35,000 for FY 2026**

The recent legislative action to increase minimum salaries at the Authority was not anticipated in the original financial planning. The upcoming salary adjustment will affect 91 existing employees as well as 44 vacant positions and would raise total payroll expenses by approximately \$801K in Fiscal Year 2026, which has increased the projected budget shortfall. As the Legislature considers funding options for these additional payroll costs in the FY 2026 Executive Budget, we respectfully request consideration of a one-time appropriation to the Authority to cover this initial expense in the current fiscal year.

## **Subsidize the 3% Increase in Employer Contribution to GERS**



Likewise, the decision of the Government Employees Retirement System (GERS) to increase the employer's contribution is a similarly unfunded mandate. GERS is already the second largest Accounts Payable for the Authority with an outstanding balance exceeding \$17 million, and this unilaterally imposed increase will potentially cost the Authority \$907,000 in additional fringe benefits. While the Authority has remained current in its obligations to GERS since April 2024, this increase will make addressing previous arrears more difficult. The Legislature can support the Authority's efforts to close its near-term funding gap by appropriating funds for this portion of the increase to the fringe benefits as part of the FY 2026 Executive Budget.

## **Subsidize the Past Due PSC Annual Assessments**

The \$2.8 million owed to the Public Services Commission is currently ranked twelfth on the Authority's Accounts Payable list. The PSC assessment for Fiscal Year 2026 is included in the Authority's proposed budget, with plans to remain current with future payments. However, the past due arrears are not currently funded. Members of the Commission have referenced these outstanding amounts as a factor affecting their decisions regarding rates.

Unfortunately, the Authority has had to make difficult decisions in recent years to prioritize the utilization of revenues on critical needs, particularly while reliant on government subsidies for operations, especially during a period when the utility was dependent on the government to subsidize operations. Unlike the private entities regulated by the Commission, WAPA is a government instrumentality that does not have a guaranteed return on investment. As a result, annual assessment payments do not impact a profit margin but are instead balanced against payments to vendors and other operational costs.

Legislative action appropriating funds for the \$2.8 million in prior PSC assessments would further assist the Authority's financial turnaround.

## **Closing Statement**

As I conclude my testimony, I want to thank the Committee on Budget, Appropriations, and Finance for affording the Virgin Islands Water and Power Authority an opportunity to present our proposed Fiscal Year 2026 Operating Budget. Allow me to repeat the disclaimer that this budget as proposed by management is still pending final review and approval by the Governing Board of the Authority. The expectation is that the Board will take action at its regular Governing Board meeting on July 24.

It should also be noted that this budget does not account for any rate reductions during Fiscal Year 2026, which, for the Authority, commenced on July 1 and will conclude on June

30, 2026. Any reduction in rates will reduce the forecasted revenue collections and result in further underfunding of critical expenses. While the Authority has made significant progress in cutting operating costs, the initial savings generated are primarily allocated to addressing outstanding balances owed and resolving deferred maintenance obligations.

The Authority continues to operate with a structural deficit, which we are actively addressing. In today's testimony, we have outlined how this deficit stems from years of core operating expenses exceeding revenues generated through rates. We have presented initiatives implemented during Fiscal Year 2025 that have led to reduced operating costs for the Authority. Additionally, we have provided an estimate of the potential remaining shortfall for the Fiscal Year 2026 budget under current operations; however, we have also identified several strategic initiatives aimed at closing this gap within the next 12 to 18 months. Furthermore, we have proposed ways in which the Legislature can support and accelerate WAPA's path toward fiscal stability enabling reliable supply to customers.

We have not spent much time discussing the major transformative projects that will ensure the Authority's long-term stability. Procurement has begun on the complete rebuild of the Richmond Power Plant to include installation of new generation and a battery energy storage system. Procurement is also in progress for additional generation and energy storage for the Randolph Harley Power Plant. A contractor has been selected for the replacement of waterlines along the northside of St. Croix. Similar waterline rehabilitation projects are being procured for the southwest of St. Croix and the east end of St. Thomas. The fiscal impact of these large infrastructure overhaul projects is unlikely to be felt within the next 12 months but will likely be part of the Fiscal Year 2027 discussion.

Honorable Senators, I want to remind you that meetings of the Authority's Governing Board, as well as hearings of the Public Services Commission, are open to the public. I encourage you to attend when possible. Additionally, I am available for individual meetings should you wish to discuss in detail the direction we are pursuing, our progress to date, and the challenges that remain. There is more heavy lifting to be done by the Authority over the next 12 months; however, with your continued support, we are prepared to meet the challenge and continue our efforts to increase the reliability and affordability of our service.

I thank you for your attention. My team and I are available to address any questions you may have at this time.