TESTIMONY OF FINANCIAL TEAM
TO THE COMMITTEE OF THE WHOLE OF THE
35TH LEGISLATURE OF THE U.S. VIRGIN ISLANDS
ON
BR No. 23-0485
HONORABLE NOVELLE E. FRANCIS, JR, SENATE PRESIDENT
APRIL 5, 2023
10:00 AM

Good morning, Chairman Novelle E. Francis, Jr, other Members of the 35th Legislature of the U.S. Virgin Islands, and members of the listening and viewing audience. I am Jenifer O'Neal, Director of the Office of Management and Budget ("OMB"). Accompanying me today is Bosede Bruce, Commissioner of the Department of Finance and Executive Director of the Public Finance Authority (PFA), Adrienne Williams-Octalien, Director of the Office of Disaster Recovery (ODR), Nathan Simmonds, Director of Finance & Administration at the PFA, Kye Walker Esq., with The Walker Legal Group, testifying in her capacity as General Counsel to the PFA, and Andrew Smith, Executive Director, VI Water and Power Authority (WAPA).

We appear pursuant to your invitation to testify on BR No. 23-0485, "an Act authorizing the Governor to utilize monies from public funds of the Virgin Islands to create working capital to provide funds for any purpose for which the Government is authorized to use and expend monies, including but not limited to, current expenses, capital expenditures, and discharge of any obligations of the Government for the next three (3) fiscal years, beginning with 2023, and to issue a line of credit in the maximum amount of $150 million and issue tax anticipation notes to provide funding for authorized governmental operations".

As we are all aware, the Virgin Islands has been beset by a number of natural disasters, any one of which would be considered significant events in the life of our community. Taken together however, they have represented and continue to represent significant challenges to our economy, to our homes and places of work, to the commerce and tourism on which many of our livelihoods rely, and to the core infrastructure that supports our way of life. I speak, of course, of the devastating impacts of the two Category 5 Hurricanes that hit our shores in 2017, Irma and Maria, estimated to have inflicted losses on our community in excess of $10 billion dollars, and also of the continuing impacts of COVID-19, the effects of which are complex and continuing on our community, on the nature of travel and tourism, on our workforce, and on how and where we conduct our work daily.

You will also note that there continues to be significant damages to our infrastructure, including schools, hospitals, government buildings, businesses, and homes of Virgin Islanders; and while the federal government has made extraordinary resources available to our community, which are expected to be received over the next five (5) to eight (8) years, federal grant funding for specific applications must be applied for and work their way through the federal agencies involved. Today, the Office of Disaster Recovery (ODR) is currently tracking over 1,500 projects across our federal funding partners, FEMA, HUD, the Department of Transportation (DOT), and the Federal Highway Administration (FHWA), among others.

This Body will further appreciate that there are in excess of one hundred (100) projects spread across all islands that are specifically funded by FEMA Public Assistance (PA) and/or Hazard Mitigation Grant Programs (HMGP) totaling over $1.3 billion dollars; $1.2 Billion from FEMA PA and $163 million from HMGP. The projects in question include the Central High School, Arthur Richards, Jane E. Tuitt, and Addelita Cancryn/Lockhart schools, the Charles Harwood Medical Complex replacement, Cruz Bay, George P. Scott, and Fortuna Fire Stations, Queen Louise Home for the Aged, and the Hermon Hill Facility, all already started or slated to begin shortly and for which these funds are needed.

BR No. 23-0485, as proposed and submitted by Governor Bryan, is an effort to secure funding to allow the Government of the Virgin Islands (GVI), and the impacted agencies and authorities, to jumpstart the numerous capital projects that have been approved by FEMA, but which require funds for design and other start-up costs to get off of the ground while they work their way through the federal grant approval process. In addition, the Government seeks to have the financial flexibility to move ahead quickly to aid WAPA in completing the buyout of its infrastructure settlement obligation, a critical step toward reducing the cost of fuel across the territory, and to meet other existing or pending emergency situations.

With the support of the GVI, in December 2022 WAPA commenced negotiations with VITOL to address the suspension of fuel supply and to bring a final and amicable resolution to the longstanding VITOL contract, which has proven to be unsustainable for both WAPA and the Territory. Those negotiations have been successful, and we are now seeking authorization to advance, if necessary, funds to assist WAPA with its negotiated payment to VITOL by advancing the funds needed to resolve outstanding payments owed to VITOL and to acquire the LPG assets, which will have positive outcomes for the Territory and its residents, while also achieving a clean break from VITOL without the threat of future suspension of services or litigation. Although legislative approval is not required for WAPA's settlement with VITOL, we are cognizant that the use of the proposed Line of Credit to advance any funds needed while we await the approval and release of funds from our federal partners may require legislative approval.

WAPA’s acquisition of the LPG assets significantly reduces risk and cost to the Territory because it allows for a redundancy in WAPA’s fuel supply due to the significant storage capacity of the propane infrastructure; effectively doubling the amount of fuel in inventory and days that

WAPA could operate without being resupplied with fuel. With full propane and diesel inventory, the St. Croix district would have over two months of fuel on hand, and the St. Thomas/St. John district would have over one and one-half months of fuel on hand, instead of 35 and 26 days respectively without the additional storage.

The propane infrastructure also significantly benefits ratepayers. The strategic decision to convert the Territory to propane, puts the Territory on a path to burning cleaner and cheaper fuel to make electricity, and the lower cost of propane has resulted in rates that are lower than they otherwise would have been with diesel. It should be noted that when fuel supply was interrupted at the end of November 2022, the Authority had to operate 100% on diesel in December, incurring excess fuel costs for diesel of approximately \$20 million. WAPA's total fuel cost in December was approximately \$32 million or about \$0.70 per kWh for fuel only; \$0.48 higher than WAPA's current LEAC of \$0.22 per kWh. The Government of the Virgin Islands through funds from the American Rescue Plan Act (ARPA), advanced WAPA the additional cost of diesel and shielded the community from escalating utility bills. Given the high cost of diesel and the collateral costs associated with burning diesel, propane is clearly critical for generating cheaper electricity for customers.

The acquisition of the LPG assets and the corresponding termination of the relationship with VITOL not only benefits WAPA's bottom line, but also improves the financial standing of the Territory as a whole. You will recall that there have been numerous reports from various rating agencies of the Government's bonds that continuously reference the ever-growing debt to VITOL, and this same debt negatively affects the GVI on its annual audits.

The Water and Power Authority, working in conjunction with the GVI through the Virgin Islands Housing Finance Authority (VIHFA), is seeking support from federal partners for the negotiated payment to VITOL. To the extent that the GVI makes any advance contributions towards that payment, the Government is anticipated to be reimbursed through funding made available by our federal partners, also allowing for immediate repayment of any funds borrowed from the LOC.

As the first installment of the negotiated infrastructure obligation is drawing near, it is imperative that this measure gains approval quickly. Passage of this bill will allow for the LOC to close before the end of April and should enable us to meet established timelines.

The PFA, in furtherance of its statutory duty and working closely with members of the Governor's Financial Team, has engaged banks, and requested term sheets for a Revolving Line of Credit (LOC) to arrive at terms beneficial to the Government and to secure an agreement for lending on short term Grant Anticipation Notes (GANs) that would assist with this foreseen need. This proposed revolving LOC is for a principal maximum sum of $150 Million and will allow the Government to immediately access these funds to pay vendors on a project specific basis while the federal reimbursement process runs its course. Once the federal funds are made available, the LOC will be repaid immediately upon receipt of the grant funds. While these negotiations are not complete, we do have banks that have expressed interest and we expect to have a commitment shortly after the passage of this Bill. The LOC will simply allow things to move forward more quickly; for projects to be designed and built more quickly; for people to get to work sooner; for vendors to get their money sooner; and for our community to be renewed, rebuilt, and transformed sooner.

For all the reasons stated, Governor Bryan respectfully requests your full support of this Bill and the consequent relief provided to the People of the Virgin Islands.

Mister Chair, this concludes our collective testimony. The team represented here today remains available to answer any questions that this Body may have, and we look forward to a favorable outcome.