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Virgin Islands Power Up With \$78 Million

By Michelle Kaske

The Virgin Islands Water and Power Authority today will sell \$78.1 million of long-term senior-lien debt, including \$29 million of Build America Bonds, to help increase electric distribution throughout the island territory.

Officials anticipate the low investment-grade rated transaction will also generate a present-value savings of at least 4% by refinancing 1998 bonds at a lower interest rate.

In addition, the VIWPA will restructure a portion of the 1998 bonds by moving some principal and interest costs due in 2011 and 2012 to 2016, 2017, and 2018, according to **David Womack, Managing Director at Rice Financial Products Co.**, the book-runner on the deal.

"It's heavily front-loaded in 2011 and 2012 and that is restricting the authority's ability to borrow for new-money purposes," he said.

"So by leveling it out, you're taking, relatively, some portions of the first two years and pushing them back. So the later years are going up a little bit, but the earlier years are coming down and the middle is staying about the same," Womack said. It's pivoting around the middle to level out the debt-service structure, and your present-value savings aren't really impacted in a meaningful way."

Hawkins Delafield & Wood LLP is bond counsel. Seslia & Co. is financial adviser. The authority is evaluating insuring a portion of the deal.

"We are exploring insurance and some maturities may be insured," Womack said. "But it's not definite yet. You would expect that there would be different investors for an insured bond versus an uninsured triple-B category bond. So it's a function of price versus the cost of insurance."

The transaction is made up of \$39.9 million of tax-exempt Series 2010A refunding bonds, \$9.1 million tax-exempt of Series 2010B bonds, and \$29 million of taxable Series 2010C BABs. Maturities

Virgin Islands Water & Power Authority Bond Sales

		Sale Date
Electric system subordinate revenue bonds, Series 2007 A	\$57.6M	June 2007
Electric system revenue bonds, Series 2003	\$70.0M	June 2003
Water system revenue & refunding bonds, Series 1998	\$44.2M	Dec. 1998
Electric system revenue & refunding bonds, Series 1998	\$110.9M	June 1998
Water system revenue bonds, Series 1992 B	\$21.2M	June 1992
Electric system revenue bonds, Series 1991 A	\$82.3M	July 1991
Water system revenue bonds, Series 1990 A	\$26.8M	May 1990
Electric system revenue bonds, Series 1988 D	\$6.2M	June 1988

Source: Thomson Reuter

will extend out 25 years, Womack said.

The Series 2010A bonds will offer serial maturities while the BABs will contain term bonds, he said. Officials are considering a term bond for the Series 2010B debt, but may add serial maturities to that portion of the sale, depending on pricing.

Standard & Poor's assigns a BBB-minus to all three series. In late January, it revised the VIWPA's outlook to stable from negative because "management expects to improve liquidity and debt-service coverage metrics," according to a Standard & Poor's report.

Moody's Investors Service rates the transaction Baa2 with a stable outlook. Fitch Ratings gives it a BBB with a negative outlook.

The authority has \$278 million of debt outstanding, including lines of credit. It has total borrowing capacity of \$500 million, according to the preliminary official statement.

The Series 2010B bonds will repay an outstanding line of credit. The BABs will help finance capital improvements throughout the islands' electrical system.

"The new-money portions are very important for increasing efficiency and

reliability," Womack said. "The biggest components are for two substations on St. Croix that will make the system more reliable in distributing power throughout the island. So these are critical projects for the authority. They don't need any new generating capacity, so this is just about increasing reliability."

The VIWPA uses oil for 100% of its energy production. To help diversify its fuel use, it is working on two power-purchase agreements that would use waste-to-energy plants to generate electricity. Those agreements are in the very early stages of permitting and finding sites, Womack said.

The authority last increased electricity rates in 2009 and may boost those fees again in 2012 to help support additional capital projects. It may sell \$23.9 million of new-money debt in 2012 to finance infrastructure upgrades, according to the POS.

The VIWPA isn't the only triple tax-exempt issuer selling electric power bonds this month. The Puerto Rico Electric Power Authority is looking to price \$850 million of debt next week, though that time line is subject to market conditions. □