



GERS Announcement

Austin L. Nibbs, CPA Administrator of the Government Employees Retirement System (GERS) is pleased to announce that the Board has approved his recommendation of Bruce Thomas as the Investment Officer.

The Importance of Retirees

Stats on how retirees (and those approaching that phase) impact the economy

Americans older than 50 account for....

- More than 77% of the country's financial assets
- 54% of consumer demand
- 77% of all prescription drug purchases
- 61% of all over-the-counter drugs
- 47% of all auto sales
- 80% of all luxury travel purchases

(Source: www.squidoo.com/retirementfacts)



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From the Desk of the Administrator



As we begin the 53rd year of operations, I would like to wish all of our members and their families a Happy New Year and good health in 2012.

Year 2011 was very challenging year for the System. With the passage and implementation of the Economic Stability Act No. 7261 amended by Act No. 7281, there has been a significant increase in retirees who retired in 2011 with credited service of 30 years or more. To be exact, 366 members retired as a result of this Act. We wish them well. However, because of this unanticipated mass exodus of active members to retire status, the System's will experience an increase in benefits payout a decrease in contributions.

On December 23, 2011, the 29th Legislature was called into Special Session to hear testimony from the Governor's Financial Team on Bill No. 29-0245, a proposal to amend certain

existing provisions of the V.I.C. in light of the severe financial constraints imposed on the Government of the Virgin Islands. The Legislature did not act on the Governor's Bill. One of the Governor's options was a layoff of some 2,600 employees if the Legislature did not act on his proposals. The System is bracing for another record breaking increase in its monthly deficit because of a decrease in contributions. The feature article for the 4th quarter is an update on some of the System's Alternative Investments. The System cannot afford any additional reductions of active members. The ratio of active to retirees is now 1.4 to 1. In my opinion, a safe ratio would be 4 to 1.

Austin L. Nibbs, CPA



Update on the Alternative Investments Program

In accordance with Title 3 Virgin Islands Code, Chapter 27, Section 717



Update on the Alternative Investments Program

In accordance with Title 3 Virgin Islands Code, Chapter 27, Section 717, the System can invest in Alternative Investments. Alternative Investments are investments opportunities that have not been identified by the traditional public equity or fixed income capital markets. The alternative investment class offers the potential for significantly greater returns than those available in the public markets. The returns are commensurate with the risk presented by the class, as liquidity, lack of standard historical evaluation data, use of derivative securities and leverage.

Examples of Alternative Investments are Private Equity, Natural Resources, Managed Futures/Commodities, Hedge Funds, Real Estate and Special Situations.

The maximum that can be invested in the Alternative Investments Program is no more than 10% of the total assets presented in the latest audited financials.

Mesirow Financial Private Equity Fund

On July 31, 2008 the Board of Trustees approved Mesirow Financial Private Equity Fund as an alternative investment. The Board authorized the Administrator to commit a total of \$25 million (\$15 million in Fund IV and \$10 million in Fund V). As of December 31, 2011, investments made towards the commitment for Fund IV was \$8.7 million with distributions of \$77,255. Fund V investments made towards the commitment were \$1.7 million with distributions of \$51,975. The System has a limited partnership interest in both funds.

Seaborne Virgin Islands, Inc.

On December 4, 2009, a loan in the amount of \$3.3 million was closed with Seaborne Virgin Islands, Inc. The term of the loan is 5 years.

The transaction consisted of two tranches, 1). a first lien term loan for \$1.3 million of which the proceeds were used to replace Seaborne's existing credit facility. The interest rate shall not be less than 8.25 percent per annum or exceed 12.25 percent per annum. The initial coupon for this loan was 8.25 percent and 2). a senior secured convertible mezzanine loan for \$2 million which was used by Seaborne to conduct the needed overhaul and maintenance of the airplanes. The interest rate is 14.5 percent.

The collateral for the loans includes all of the real and personal property of Seaborne Virgin Islands, Inc. and

the unconditional guarantee of Coastal Airways, Inc. the parent company of Seaborne, secured by all of the issued and outstanding common capital stock of Seaborne Virgin Islands, Inc. All of the proceeds of the loans were disbursed.

On November 17, 2011, the Board approved Seaborne's request for an extension to January 31, 2012 to exercise the convertible feature of the senior secured convertible mezzanine loan to prepay the convertible note on January 31, 2012. In addition, Seaborne has submitted a proposed modification of the loan agreement to consider granting GERS an equity interest. The proposal is being considered by the Board.

Renaissance Carambola Beach Resorts and Spa

On December 8, 2009, a loan in the amount of \$15 million was closed with Carambola Northwest, LLC. The term of the loan is 5 years. The interest rate is 10.5 percent. The initial funding was \$8,242,592 which was used to purchase existing bank loan documents and judgments, payment of bonafide priority liens against the property and closing costs, and \$1.9 million was held back in escrow to pay down the interest. As of December 31, 2011, from the \$15 million loan a total of \$5.9 million has been disbursed directly to Carambola to fund the renovations of the rooms and for

operations. Last year, Carambola obtained the Marriott Renaissance flagship. The collateral for the loan includes the primary collateral consisting of all land and buildings of Carambola Beach Resort.

Carambola defaulted on the loan because it did not make timely principal payments. On November 20, 2011, Carambola submitted a formal request to the Board for a loan modification. On December 15, 2011, the Board approved the loan modification. The Board approved the reduction in the interest rate to 6.3%, Carambola's recommendation to infuse capital into the project through equity investors, and attached 19 amended terms and conditions that Carambola must adhere to.

**Property Tax Revenue
Anticipation Note**

On October 25, 2011, the Board of Trustees approved a \$13 million loan to the Government of the Virgin Islands. The note was issued by the Virgin Islands Public Finance Authority.

The purpose of the loan was to make payments of \$10,000.00 to retirees who retired under the Virgin Islands Economic Stability Act No. 7261 and as amended Act No. 7281 and other payments to the retirees such as accrued leave and expenses of the Office of the Lieutenant Governor associated with the processing, issuing and collecting property tax bills and fees, charges and costs relating to the issuance of the Property Tax Revenue Anticipation Note.

The closing date was November 15, 2011 and the maturity date is December 15, 2016. The interest rate is 4.91% which was the interest rate on the five year U.S. Treasury rate on November 15, 2011 (.91%) plus 400 basis points.

The Note is payable from a first lien on all Real Property Tax Receipts from delinquent Real Property Tax Receivables, including penalties and interest for tax years prior to and including 2005 totaling approximately \$36 million. The System is expected to earn \$1.8 million in interest.

GeoNet Ethanol, LLC

On October 25, 2007 the Board of Trustees approved an \$8 million loan to assist the St. Croix based GeoNet Ethanol (GeoNet) finance 15% of its inventory. The additional 85% was financed by Banco Espirito Santo S.A. The date of the note was December 5, 2007 with a maturity date of January 3, 2009. The note was paid off in full in January 2009. The interest rate was 8.25%. The System received \$706,845 in interest from this one year loan.

GeoNet was formed in November 2005 and was based in the St. Croix Renaissance facility. Ethanol is a grain alcohol that is made from corn or sugar cane. It is created by fermenting the corn or sugar cane. GeoNet then shipped the ethanol made in Brazil to the St. Croix facility, where it was distilled out the clean liquid's remaining water. The final product oxygenated fuel was then shipped to the United States.

The collateral for the loan was a security interest in all right title and interest of GeoNet in the Inventory Loan Deposit Account and the proceeds from the sale of each cargo of ethanol inventory that represented Waterfall Released Balances from the Waterfall Account.

**Recommended
Electronic Annuity
Payments**

We wish to encourage you to sign up to receive your semi-monthly annuity payments electronically by way of Direct Deposit.

Direct Deposit is a secure and convenient way to receive annuity payments. Why not enjoy the benefits and convenience today?

- Payments reach account on time
- Eliminates the risk of loss or stolen checks and forgeries
- Access account any time, any where
- Avoid long bank lines
- Avoid delays in the event of a natural disaster

If you currently bank with a specific institution and wish to have your annuity payment deposited into that account, you may obtain a direct deposit enrollment form from your bank.

Join the millions who have discovered the ease and convenience of Direct Deposit.



GERS Event Calendar



GERS *Update!*

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• Board Meetings

- Monday, January 19th (STT)
- Thursday, February 16th (STX)

• Hours of Operation

The offices on St. Thomas and St. Croix will be closed for **Loan Application intake** and **Member Services (Benefits)** beginning 8:00a.m., Thursday, January 12th through 5:00p.m., Wednesday, March 7th, to allow the staff to conduct maintenance on the new V3 Pension and Benefits System. During this period, all other services will remain the same. Regular business hours for **Loan Application intake** and **Member Services (Benefits)** will resume at 8:00 a.m. on Monday, March 12th. We apologize for any inconvenience this may cause our members.

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