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USVI Limps Along With Little Cash on Hand as FEMA Blocks \$60 Million Loan and Banks Require Stringent Guarantees

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The novel coronavirus has devastated the Virgin Islands economy similarly to havoc the virus has wreaked on many others around the world. With the territory's tourism product — which accounts for a large swath of the Virgin Islands Gross Domestic Product — all but halted, Bryan administration officials last week laid out the bleak reality of the territory's finances before members of the 33rd Legislature.

The territory as of Wednesday had two days cash on hand, according to Office of Management and Budget Director, Jenifer O'Neal; the \$60 million the Bryan administration sought from FirstBank and Banco Popular — \$30 million each — was blocked by FEMA; and the two banks called for additional concessions before they could provide the funding.

"Negotiations continue as we are being advised by our bond counsel and financial advisors, and have noted that some of the terms being required by banks will require further legislative actions by [the Senate]," Ms. O'Neal said. "Those terms include the requirement for a statutory lien, a statutory waiver of sovereign immunity, the issuance of property taxes by June 1, and the pledging of income tax collections as a form of repayment."

Ms. O'Neal added, "This loan, if approved, will provide the government with much-needed liquidity to offset the revenue losses because of the pandemic that has left us with two days cash on hand, totaling \$3.5 million."

As part of the agreement that saw FEMA providing hundreds of millions of dollars in Community Disaster Loans to the territory following Hurricanes Irma and Maria, FEMA must first grant its approval before the local government could secure additional borrowing.

On FEMA's action to block the loan, Ms. O'Neal said, "For the record, however, please note that FEMA yesterday (Tuesday, May 12) did not approve the borrowing, specifically due to the provisions for a general obligation pledge and use of FEMA dollars as a form of repayment."

This puts the matter of the loan being approved in an impossible position. FEMA says the borrowing plan cannot include general obligation bond, which could include repayment sources such as tax revenues. However, the banks are saying income and property taxes would need to be avenues for repayment if they were to approve the loans.

Ms. O'Neal said the government faces a 2020 budget shortfall of \$150 million because of the pandemic, which so far has sent over 8,000 residents seeking unemployment benefits. The financial stresses are further compounded "by the fact that we are approaching what is historically our low season due to the threats of hurricanes," Ms. O'Neal added.

In light of the calamity, O.M.B. has ordered budgetary cuts for all departments and agencies that could sustain a reduction. This amount totals \$69 million, which Ms. O'Neal said will be accomplished "by halting all vacancies unless they are deemed to be critical hires or are federally funded."

"These reductions still leave a projected budget gap of \$80.4 million and will require further adjustments if borrowing is not a reality," Ms. O'Neal said. The V.I. Police Department, the VI Fire Service and Veterans Affairs were not part of the government arms being considered for the austerity measures, according to Ms. O'Neal.

Even with the drastic shortfalls, Bryan administration officials said furloughing of government employees was a last resort.

Other important money items

Though the territory received \$75 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, these funds cannot be used for budgetary shortfalls. "These funds are available through the end of the calendar year, and all funds not expended must be returned to the federal government," said the OMB director.

Of the \$75 million, \$15.4 million was provided to WAPA as part of Mr. Bryan's "YES" program which sees residential customers receiving a \$250 credit on their WAPA bill for the month of May, and \$500 for business customers. Over \$400,000 went to the St. John ferry operators.

On May 5 the territory was provided with \$67.8 million from the U.S. Treasury of the roughly \$84.7 million the USVI expects to receive for the issuance of coronavirus stimulus checks.

The territory's debt ceiling (borrowing capacity) as of April 30 stood at \$1.14 billion, and as of April 30 the general outstanding obligation was approximately \$831 million — which leaves the government with a borrowing capacity of \$313.3 million.

The local government owes \$200.6 million in Community Disaster Loans, which were provided by FEMA following the 2017 hurricanes. The federal government granted the territory a one-year deferment, which Ms. O'Neal said saves the USVI over \$3 million in interest payments. The next CDL payment will come due on October 1, 2021, Ms. O'Neal said.

The matching fund revenue obligation debt of the government as of April 30 stood at \$757 million, and the territory's special limited obligation debt for the Cruzan Rum and Diageo loans stood at \$247.9 million.