

## **PFA Budget Hearing Raises Concerns Over Rum Revenues, GERS Note and Rising Legal Costs**

**PFA's \$27.88 million request rises 7% amid legal fees and General Fund reliance; lawmakers warned falling rum sales could create problems for GERS, while ODR projects \$734 million in FY2027 recovery spending and \$37 million in Gross Receipt Taxes.**

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**A Captain Morgan rum display, representing Diageo, one of the territory's two rum producers alongside Cruzan Rum, as lawmakers warned falling rum sales could strain revenues tied to GERS obligations.**

The V.I. Public Finance Authority and the Office of Disaster Recovery were among the first entities to appear before the Committee on Budget, Appropriations, and Finance for review of

their fiscal year 2027 budget requests, with lawmakers hearing concerns about rising PFA costs, declining rum sales, continued reliance on the General Fund and more than \$734 million in planned disaster recovery spending.

The PFA's total FY2027 budget request, approved by its Board of Directors, is \$27.88 million. That represents a 7% increase over the current fiscal year.

PFA Director Nathan Simmonds said the \$1.77 million increase is due "primarily to ongoing legal fees resulting primarily from tax refund litigation for the government."

The PFA's budget is funded by \$5 million from Gross Receipt Taxes, \$9 million from the General Fund, \$8.21 million in federal reimbursements, \$5.56 million from the authority's Project Fund, and \$100,000 from Frederiksted Mall rental revenue.

The \$9 million General Fund request includes \$5 million for the PFA and \$4 million for the Office of Disaster Recovery.

Mr. Simmonds reminded the committee that before 2022, the PFA did not rely on General Fund appropriations. Previously, the \$5 million would have been allocated from the Internal Revenue Matching Funds, commonly known as the Rum Cover-Over. However, because Matching Funds Bonds were issued and revenues after debt service are being used to fund the GERS note, the PFA is now relying on the General Fund for that portion of its budget.

Senator Angel Bolques Jr. questioned whether that arrangement is permanent.

Mr. Simmonds said the plan is to "try and increase the matching fund revenue so that we can generate more monies and have excess monies after the GERS payment."

"Until we're able to satisfy the GERS note, then there won't be any excess to come to the PFA for its budget," he added.

Lawmakers also raised concern about rum revenue trends. Senator Hubert Frederick observed that rum sales have declined.

"I hope the trend don't continue, but it's trending that way, which means we're going to have a problem with GERS based on these numbers right here," he said.

Mr. Simmonds concurred.

It's "something else we're going to have to figure out," Senator Frederick said.

Senator Milton Potter asked whether the PFA has a strategy to "maximize the production of rum to increase the numbers."

According to Mr. Simmonds, the authority has had "several discussions with different rum brands about locating to the territory... but for one reason or the other, we have not been able to get that to come to fruition."

He said national rum sales have generally dropped. While the PFA is reviewing the marketing strategies used by existing producers, Mr. Simmonds indicated that current market conditions are unfavorable.

The need for a solution appears more pressing as the PFA anticipates expenditure increases in several categories, including administration, which is expected to grow by 10%. For FY2027, the authority is requesting \$6.22 million for administration, including funding for “increased insurance expenses” and the “rental and overhead cost of the new St. Thomas office location at WICO.”

The Office of Disaster Recovery’s FY2027 expenditures total \$12,218,820, including the \$4 million General Fund request. ODR’s budget covers its operations as well as the Super PMO and CDBG-DR programs.

In separate testimony, ODR Director Adrienne Williams-Octalien said the General Fund allocation allows the office to “continue its mission toward building a resilient Virgin Islands.”

ODR’s operations are largely funded by the administrative costs of the federal disaster programs it manages. That contribution represents 67% of the office’s total budget.

However, Ms. Williams-Octalien said ODR requires “seed and float funds” to support drawdowns and “overall administration.” Although \$4 million has been ODR’s “standard ask,” the office typically receives \$2.4 million, according to the director.

ODR is managing a large recovery portfolio, with \$24.5 billion obligated for disaster recovery. Of that amount, \$4.5 billion has already been expended.

According to Ms. Williams-Octalien, more than \$734 million in expenditures are planned for FY2027. She said that activity is expected to generate \$37 million in Gross Receipt Taxes.

Senator Kurt Vialet encouraged ODR to work with the Bureau of Internal Revenue to ensure taxes are collected across the board.