

The Virgin Islands Consortium

Man Who Oversaw Sale Of Innovative To Company That Owes GVI Millions Nominated By Mapp To UVI Board Of Trustees

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ST. CROIX -- Last Friday the Kenneth Mapp administration announced the nomination of eight candidates to various boards and commissions of government entities. These nominations are critical as the individuals chosen are charged with making crucial decisions that affect not only the entities -- University of the Virgin Islands, VI Taxi Cab Commission, VI Port Authority Board of Governors, and the Waste Management Authority -- but also the territory and residents who reside therein.

Among the eight nominated by the governor, as made known by Friday's press release, was Steven Lilly, to sit on UVI's Board of Trustees. But [documents obtained](#) by *The Consortium*, and strengthened by [information gleaned](#) from National Rural Utilities Cooperative Finance Corporation's (CFC/RTFC) website (screengrab [here](#)) -- the company owing the Government of the Virgin Islands over [\\$100 million in taxes](#) -- show that Lilly, who became the company's director of special finance in June, 1985, and moved up the ranks to his current position of senior vice president for special asset management -- responsible for the oversight of Caribbean Asset Holding (CAH), which includes the sale of then-Innovative Communications Corporation (ICC) -- was the company's senior vice president and chief financial officer from 1994 until July 1, 2013.

According to the documents and CFC/RTFC's own website, Lilly was in charge of all financial decisions for CFC/RTFC during the years the company failed to file and/or pay \$22 million of taxes to the government, amounting to what could be one of, if not the territory's history.



Steven Lilly

The governor, in regards to his transmittal letter addressed to President of the 31st Legislature, Neville James, [said](#), "It is my pleasure to ask the advice and consent of the 31st Legislature on these nominations. Confirmation of these nominees will enhance the boards and commissions' abilities to meet their busy agendas and serve the people of the Virgin Islands."

But Lilly's nomination calls in question the administration's vetting process; magnified by the territory's current financial woes, where every tax dollar is vital to the islands' survival.

Last Thursday, the GVI revealed to the Committee on Finance that the government expends \$2 million daily for operations; and that it had only [nine days of cash on hand](#).

"One of the key things that we utilize at the Department of Finance is available cash," Acting Finance Commissioner Valdamier Collens said under oath at the Earl B. Ottley Legislative Hall. "In looking at cash today, we have approximately nine days worth of cash in our coffers to utilize."

Senators, fearing the government would run out of funds to pay its bills — including making payroll — moved on three borrowing measures that was before the committee, called Revenue Anticipation Notes (RAN).

RAN allows the Government of the Virgin Islands to take historic collections of property taxes and leverage it off in a loan note. This allows the GVI to collect the money immediately in one batch, and as payments for property taxes come in, payments will be made on the note, through a trustee, until the loan is paid off in full.

Two of those bills passed the committee and is now headed to the full body for it's approval, which would buy the government some time to stay afloat and make essential payments.

According to [these documents](#), On June 26, CFC/RTFC and CAH signed a non-binding letter of intent to sell the ICC companies, including Innovative and VITELCO. This division is currently being headed by Lilly.

Lilly earned a total of \$604,169 in 2014; \$643,439 in 2013; and a total of \$878,509 in 2012 in his various capacities at CFC/RTFC, other [documents](#) reveal.

CFC/RTFC and GVI Taxes

Following a *VI Consortium* [report in January](#) that laid bare the earnings of companies that profited when Jeffery Prosser, the former owner of then-Innovative Communications Corporation (ICC), lost the company in bankruptcy to Rural Telephone Finance Cooperative (RTFC) in 2008, the Virgin Islands Bureau of Internal Revenue (BIR) is now attempting to collect the owed taxes, which totals \$150 million to \$175 million — well over the territory's current budget deficit lingering at \$90 million to \$100 million.

These companies failed to pay taxes on some \$405 million earned during the bankruptcy proceedings.

The Consortium reviewed one of the documents that BIR sent to its debtors in June 2015, addressed to RTFC. The document states that RTFC, from 1996 to 2005, owes the Government of the Virgin Islands over \$90 million in taxes, falling in line with *The Consortium's* January report, although taxes RTFC owes date back to 1990. The taxes were accrued on interest payments Innovative Communications Corporation (ICC) and its subsidiaries made to RTFC.

Court documents obtained by *The Consortium in January* revealed the names and earnings of the companies and persons involved in the bankruptcy process, with parties receiving payments ranging from \$500,000 to \$312 million. These companies also received letters from BIR similar to what was addressed RTFC. They are:

- Rural Telephone Finance Cooperative – \$312 million
- Vinson & Elkins – \$28 million
- Greenlight – \$27.5 million
- Alvarez and Marsal – \$17 million
- Fox Rothschild – \$8 million
- Stan Springel – \$2.5 million
- Christies Auction House – \$1.5 million
- James P. Carroll – \$500,000

RTFC is a firm that provides loans to telephone companies. Innovative and RTFC had a longstanding relationship dating back to 1999. The \$312 million RTFC received from

Innovative from 1999 to 2007 was accrued on interest.

According to court documents, James P. Carroll, the Chapter 7 trustee of ICC, was paid for selling Prosser's assets. A percentage of the sales would go directly to Carroll every time assets were sold; the Fox Rothschild law firm provided legal services to the bankruptcy estates of Prosser; RTFC paid New York-based Greenlight to become its partner in the lawsuits against Prosser.

Christies Auction House, also based in New York, was hired to sell the property of the estates, including furniture, jewelry and other items. Stan Springel was the Chapter 11 trustee; Vinson & Elkins provided legal services to Springel, and Alvarez & Marsal was the consulting/accounting firm hired by Springel to perform accounting work on the bankruptcies.

Court documents show that the parties were paid a combined total of more than \$405 million issued in U.S. Virgin Islands checks from either VITELCO or ICC. Local gross receipt taxes are at 5 percent, while corporate income tax at this level would be 35 percent with a 10 percent surcharge.

Without accounting for interest and other taxes, the government's coffers could gain \$175 million if the owed taxes are paid. Even if there were to be a settlement between the government and the parties involved, where half of the monies owed the government were to be paid, the government would still be due \$87.5 million.

Two whistle blowers filed suit with the Virgin Islands Bureau of Internal Revenue (BIR) and the Internal Revenue Service (IRS) against the companies on June 10, 2013 — over two years ago — however, although the BIR has been moving on the case, it has been slow in taking action against the parties involved. The government agency, following *The Consortium's* report, has upped its efforts to collect the much-needed funds.

In regards to the IRS, its interests are with issues of failure to file and non-payment of taxes.

Government Budget Deficits

Former Governor John P. de Jongh, Jr., in June of 2014, proposed legislation that would authorize the V.I. Public Finance Authority to issue more than \$100 million in new bond debt to aid in plugging a-then \$30 million budget shortfall, pay utility bills and fix roads, among other pressing initiatives.

These budget issues, which have been ongoing before 2011, ballooned after HOVENSA's closure in early 2012. The effects of the closure have been felt throughout the territory, as other businesses linked to the refinery, either directly or indirectly, also shuttered.

That, coupled with the high prices of fuel only exacerbated the problem, as families were forced to cut back on leisure spending, causing other sectors of the economy to also feel the pinch.

On July 5, 2011, de Jongh signed the Virgin Islands Economic Stability Act of 2011, which cut the salaries of all government employees by 8 percent. The bill was the 29th

Legislature's response to threats made by de Jongh to layoff 600 government employees in order to close a \$17.4 million budget shortfall for Fiscal Year 2011.

The 8 percent salary cut was restored two years after it was initiated, in line with a clause in the legislation. According to the law, the pay cut was to be fully restored by July 2013.

The territory's financial problems further swelled when the Governor Kenneth Mapp administration took hold in January, with Mapp making known during his first State of the Territory Address that the islands financial condition was in dire straits.

"Our government is nearing the brink of financial collapse," Mapp bluntly stated. "Our ability to deliver basic essential services to our communities is diminishing more and more each day."

The complete breakdown of payments received by the firms and persons involved in the Prosser-Innovative bankruptcy cases can be seen [here](#). ICC interest payments to RTFC are [here](#), and other related documents can be viewed [here](#), [here](#) and [here](#).

Innovative is now owned by RTFC after the company gained ownership of the local telecommunications giant during the bankruptcy bidding process in 2008, which RTFC won. RTFC was the main financial backer of Innovative, providing a stream of cash to the business for its other companies that were spread across the Caribbean, including firms in Guadeloupe, Martinique, St. Marten and the BVI, as well as in Belize and France.

Feature Image: Innovative's lobby area.