

The Virgin Islands Consortium

VI Government Risks Default Because of Mounting Debt, Dying Pension System, Rating Agency Warns

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Moody's, one of the most respected rating agencies in the world, on Thursday gave a bleak assessment of the V.I. government's standing that could affect the Bryan administration's attempts to secure bonds at a time when it needs liquidity the most.

In a review of the GVI's financial standing, Moody's said the V.I. government, faced with mounting debt and a pension system projected to collapse soon, could move to restructure its debt.

When a government defaults on a debt, the government disposes or ignores its financial covenants toward certain creditors. The immediate effect for the government is a

reduction in its total debt and a reduction in payments on the interest of that debt.

"Despite some recent improvement in the government's liquidity and near-term financial position, the rating incorporates the risk that the reemergence of a significant structural deficit, combined with the expected insolvency of the Government Employees' Retirement System, will lead the government to restructure its debt," Moody's [said](#) in its latest review of the V.I. government's credit rating. The periodic review also covered related credits within the territory's debt stack including any special tax, lease, appropriation and moral obligation, intercept program, and pool program ratings, Moody's said, as well as the dramatic economic downturn caused by the current coronavirus pandemic.

The news [comes at a bad time](#). The government, with only two days cash on hand of \$8 million, desperately needs liquidity to avoid a near-term collapse. The most critical of expenditures is government payroll, which is \$19 million biweekly. The next government payday is Thursday, June 4.

The Bryan administration is seeking to borrow \$60 million from the territory's two big banks: Firstbank and Banco Popular, but the banking institutions and the VI government have not been able to settle on terms, as the banks seek deep concessions from the government.

According to Office of Management and Budget Director Jenifer O'Neal, speaking to the Senate Committee of the Whole mid-May, FirstBank and Banco Popular were calling 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." Informing the banks' demands is the territory's weak financial standing and dismal credit rating.

The terms were rejected by FEMA, which as part of the agreement that saw the federal agency providing hundreds of millions of dollars in Community Disaster Loans to the territory following Hurricanes Irma and Maria, must first grant its approval before the local government could secure additional borrowing.

"... We continue to negotiate with the banks. I think we're waiting for our return term sheet from the banks before we go back again and finally secure the \$60 million RAN," Governor Bryan said Thursday.

It is worth pointing out that the V.I. government has never defaulted on its obligations. However, that is little consolation for creditors whose only metric is the government's current financial standing, with a mounting debt load, a dying pension system and an economy badly damaged by the coronavirus pandemic. Exacerbating the problem, the territory's main product, tourism, sustained the hardest hit and is not projected to fully recover for while as cruise ship travel is expected to take years to recover, and travelers scale back on activities for a multitude of reasons: from fear of being infected with the coronavirus, and diminishing disposal income.