

The Virgin Islands Consortium

Capital Projects Budget To Be 'Modified' From \$260 Million To About \$160 Million In Light Of GVI Bonds Downgrade, Sen. James Says

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ST. CROIX -- Governor Kenneth Mapp's ambitious plan to fund essential projects territory-wide through a capital projects budget of \$260 million that he proposed through a bill [forwarded to the 31st Legislature in June](#), will be tapered by about 40 percent, Senate President Neville James told The Consortium Wednesday afternoon.

A formal announcement is expected sometime next week, Mr. James said, confirming that he has had conversations with the governor about the matter, which came as a result of the ratings firm Moody's downgrade of the territory's rum cover over bonds --

four liens of matching fund revenue bonds, issued through the Virgin Islands Public Finance Authority.

The downgrade has not made it more difficult for the government to float bonds; but it has made it more expensive and any bond issuance will come at a higher interest rate than what is currently being paid.

"The question is how much do we want to expose the government in the bond market, given our current rating status," Mr. James said.

Department of Finance Commissioner and PFA Director Valdamier Collens [said in July](#) that the downgrade essentially prevented the government from restructuring its debt.

"Whereas we were between the 4 1/2 to 5 percent or even lower in some of the bonds that we've issued in recent years, this effect has caused the projected yields to be up 2 to 3 percent higher, and in that regard, it would not make a whole lot of sense to restructure, [for example], your mortgage for a higher rate when you're already getting a lower rate," Mr. Collens said.

The government's bonds are secured by matching fund revenues which are remittances paid by the federal government to the Virgin Islands Government (G.V.I.) of a portion of federal excise taxes collected on rum produced in the territory and shipped to the U.S. mainland. The rating action affects approximately \$1.24 billion in outstanding debt, according to Moody's.

Mr. James said the government would make "a responsible decision" once the specifics are hashed out. "I don't want to give the impression that we are just in the business of floating bonds; we have to be responsible as a government. But that is the way you raise funds to fund capital projects so that's what we're doing in this regard," he said.

The senator added that while the idea is to cut funding across the board, there are some projects that he deemed essential to the territory's progress.

"Healthcare and our hospitals, as well as education, and we need to have a discussion with W.A.P.A. in respect to what they plan to do in addressing our power-generating capabilities because that's a big issue. You can't really seriously consider economic development unless we address our energy situation," he said.

And while Mr. James understands the downgrades, he said the territory's was not being treated fairly by the ratings agencies.

"What's being done to us, in some instances, we believe is unfair for two reasons: 1), We believe they're doing it because of our proximity to Puerto Rico, and 2), we've never missed a bond payment," Mr. James said. The senator argued that the way the territory's bonds are structured prevents the government from using the monies for other obligations. "We prioritize paying our debt off the top of whatever revenue we generate; in other words we don't have the choice of not paying out debt," which is unlike Puerto Rico, he said.

Moody's says that, to a lesser extent, the downgrades also reflect a decline in pledged matching fund revenues and debt service coverage in 2015 primarily attributable to a

reduction in shipments by one of the territory's two rum distilleries. The release did not identify which rum company had seen decreased exports. And it says future coverage could decline further if the territory is successful in its plans for debt refinancing and new money issuances.

Moody's did, however, recognize that the bonds possess a number of structural features that provide bondholder protections and stronger credit quality than unsecured general obligation bonds, most notably the direct payment of pledged revenues to the US Treasury to a special escrow agent/trustee. The government has pledged and assigned matching fund revenues to the trustee for the benefit of bondholders, establishing a security interest in the revenues. The statutes are written to create a statutory lien on the revenues.

"But we note the instruction to the US Treasury to make the direct payment must be renewed annually by the Virgin Islands government, and these structures have not been tested in a stress scenario where the government faces a severe lack of funds to provide basic services," said the ratings firms.

Democratic Primary winner Terrence D. Joseph, who is facing an uphill battle for a Senate seat in the November General Election, said while cutting back on projects because of the downgrades is a prudent move by the government, certain projects -- and institutions -- should not be part of those considerations. He said that certain projects on St. Croix should not be touched.

"Understanding the difficult financial situation that our territory faces right now, we hope that the legislature and the governor takes the position of prioritizing the cuts that need to be made to the Capital Improvement Budget. All projects are not created equal, and thus should not be treated as such. The slashing of the Capital Improvement Budget of approximately 40 percent should not be done down the line," he said.

"Understanding that all of the projects in the budget are important, not all hold equal significance to the livelihood and improvement of residents here in the territory, but most importantly here on St. Croix," Mr. Joseph added, mentioning the Paul E. Joseph Stadium, funding for the Juan F. Luis Hospital as well as building new schools on the big island.