

The Virgin Islands Consortium

Fitch Downgrades U.S. Virgin Islands Matching Fund And Gross Receipt Tax Bonds To Junk Status

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Another top U.S. ratings firm has downgraded the territory's bonds, compounding an already precarious situation for leaders here as they contemplate [floating bonds to meet a \\$110 million budget shortfall](#). The move comes [three weeks after Moody's downgraded the territory's matching fund bonds](#), and adds gross receipt tax (G.R.T.) bonds to the mix.

Both the gross receipt tax and matching fund bonds -- the latter backed by rum revenues -- have been downgraded to B+ from BB), sending both bonds further into junk status. Additionally, the U.S.V.I.'s issuer default rating (which is the territory's general credit rating), was downgraded to B+ from BB-.

In simple terms, the more the territory's bond ratings are downgraded, the more difficult and expensive it becomes to float bonds. [In July](#), Finance Commissioner Valdamier Collens said that the bond downgrades 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,” he said.

The bond ratings are now two notches above the territory's issuer default rating, reflecting Fitch's assessment that the bonds are exposed to the operating risks of the territory but benefit from enhanced recovery prospects assuming passage of legislation by lawmakers here to provide a statutory lien on the respective revenue streams for bondholders, according to a Fitch press release issued on Monday.

Fitch says it believes that a statutory lien would enhance the recovery prospects for bondholders should the federal government adopt legislation in the future allowing for a restructuring of USVI-backed debt. Failure of the USVI to pass the proposed legislation to create a statutory lien would result in downgrade of the bond ratings to the level of the 'B+' issuer default rating.

The gross receipt tax and matching fund bonds had previously been rated based on the assumption that the territory had no avenue to restructure its debts. This allowed for a rating significantly above the territory's issuer default rating based on the criteria used to rate dedicated tax bonds of U.S. states, which cannot declare bankruptcy. The passage of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) does not currently apply to the Virgin Islands. However, it led Fitch to conclude that this assumption can no longer be the basis for a rating above the territory's general credit and triggered the placement of the USVI's dedicated tax bond ratings on negative watch.

According to Fitch, The adoption of PROMESA demonstrated the capacity of the federal government to adopt legislation controlling territorial bankruptcy in much the same manner that a state might do to control the ability of municipalities to seek bankruptcy protection. As a result, going forward Fitch will treat the USVI as analogous to a local government in applying dedicated tax bond criteria and believes that gross receipt and matching fund bondholders are exposed to the operating risk of the territory, capping the ratings at the level of the issuer default rating plus whatever notching up for enhanced recovery prospects is warranted under Fitch's criteria.