

The Virgin Islands Consortium

With Territory's Bonds At Junk Status, Mapp Administration Seeks \$430 Million In New Debt

Business / **Published On September 22, 2016 11:08 AM /**

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ST. THOMAS -- The Mapp administration's finance team sat before senators at the Earl B. Ottley Legislative Hall on Wednesday to make its case for \$430 million in new borrowing, while introducing a new five-year plan that it says is aimed at stimulating the economy.

Finance Commissioner Valdemier Collens broke down the new bonds, to be secured by the matching revenue funds and gross receipt tax, as \$250 million in capital projects through [Bill No. 31-0447](#), \$150 million in working capital, and \$30 million to finance what Mr. Collens said were past due costs mandated under existing consent decrees with the U.S. Environmental Protection Agency and the U.S. Department of Justice -- namely the

Bovoni and Anguilla landfill consent decrees.

But the borrowing comes at a time [when the territory's bond ratings are at junk status](#), which in turn increases interest rates on new bonds being floated.

Mr. Collens said the downgrades forced the Mapp administration to exclude debt restructuring, which he has said wouldn't be prudent because the new interest rate would be higher than what the government is currently paying. Instead, the administration saw the floating of new bonds for what Mr. Collens says are working capital and essential capital projects, as the best route in stimulating the economy.

To procure the new borrowing, the commissioner said bondholders would be secured through a statutory lien on all matching fund revenue and gross receipt tax bonds, which means regardless of what the territory's financial needs are, paying bondholders would be first priority. This system is unlike Puerto Rico's, whose government forewent paying bondholders to keep the government afloat. That decision deteriorated Puerto Rico's standing in the bond market, and led to the position the commonwealth is in today.

In fact, the Mapp administration's proposed lien on the matching fund revenue and gross receipt tax bonds is so heavily tilted towards the bondholders, that it was written in such a way that it would not be annulled even if the Government of the Virgin Islands filed for Chapter 9 bankruptcy.

"Such positions are designed to enhance the security for investors and our current bondholders, along with achieving a higher rating from Fitch," Mr. Collens said. When Fitch [downgraded the territory's bonds](#), a lack of a lien on matching fund revenue -- revenues derived from rum exports -- was a major reason for the downgrade. Mr. Collens said the lien would prompt Fitch to raise the territory's bond rating from B+ to BB.

The \$430 million would be paid, the administration says, through a mix of tax increases, and the creation of new taxes. There would be a review of millage rates (the amount per \$1,000 that is used to calculate taxes on property) on real property tax and tax credits. There would also be a new sin tax, which Mr. Collens did not specify, as well as "marginal increases on certain products deemed harmful to society," (Mr. Collens pointed out Tobacco, alcohol and sugary products), and also "the enhancement of marine users tax."

Mr. Collens also said the administration would implement an internet gross receipt tax, which is a tax on items for those shopping online.

The commissioner said the five-year plan was created to mitigate the \$170 million fiscal year 2017 budget shortfall, as well as reducing accumulated debt. "Please allow me to be clear, the proposed revenue initiatives are not intended to apply additional financial stress for the Virgin Islands Household for basic, everyday goods and services," he said. "In fact, the proposed revenue initiatives have been structured to add to the territory's tax base by specifically targeting products consumed by the population of transient consumers who briefly enter and leave the territory."

Mr. Collens said administrative and economic revenue initiatives would begin to take effect in 2017, with the majority of projects being fully realized by fiscal year 2018. He said a significant aspect of the five-year plan is increased contributions to the

Government Employees' Retirement System (GERS), adding that the five-plan would see about \$150 million being infused into the beleaguered pension system -- monies mostly derived from "comprehensive policy reform," and by "intensifying the Economic Development Authority's marketing and applicant review efforts for the government's key economic driver: the Economic Development Authority."

The five-year plan includes 9 legislative initiatives that Mr. Collens said would generate \$245 million, and would be revealed in the next six months.

The projects include, among others, funding for a new multipurpose center in St. Croix, renovations of schools throughout the territory, improvements to police stations and Bureau of Corrections facilities, improvements to historical government sites and renovation of recreational facilities. The administration also requested authorization to purchase land in St. John for the construction of new school facility.

Lawmakers expressed concern with the continued borrowing, with Senator Janette Millin Young asking what would happen down the road. Senator Myron Jackson lamented the length of time it was taking to get projects already funded online, and said that a lack of planning was the cause for such problems. And Senator Terrence Nelson, like others, was not confident that the projects the administration said would stimulate the economy would be able to do as such.

No action was taken on the measure, and hearings continue today.