The Virgin Islands Consortium

As Territory Teeters On Brink Of Financial Calamity, Mapp Calls Press Conference

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Two years following Governor Kenneth Mapp's dire assessment that the U.S. Virgin Islands was on the brink of financial collapse, the story has remained the same. The Government of the Virgin Islands, badly in need of cash, has found itself struggling to access the bond market, which it badly needs -- and very soon -- if it is to meet the operational needs of the government, to include payroll.

In November 2016, the Senate passed Bill No. 31-0482, a working capital measure of $247 million ($100 million of which was tagged on for the Government Employees' Retirement System), which was immediately signed into law by Mr. Mapp at a Public Finance Authority meeting, clearing the way for P.F.A. bond counsel Patricia Goins of Hawkins Delafield & Wood LLP, and P.F.A. financial advisor Andre Wright of the Standard International Group, to head to the markets on behalf of the government.

The closing was to occur mid-December -- the governor even promised residents tax refunds from the closing -- but soon after, Office of Management and Budget Director, Nellon Bowry, confirmed to The Consortium that the closing would not take place until early January, 2017. Now, however, according to Mr. Wright, though the bond pricing took place earlier this week, investors have requested more time before a sale could be reached.

Meanwhile, the territory is in dire need of the cash for government operations. At the December 2016 P.F.A. meeting, the $147 million was said to be needed for multiple purposes: the governor said $116 million would be used for central government operations (payroll, tax refunds, etc.); $6 million would go to the Waste Management Authority (of which $750,000 would be deducted to satisfy a recent P.F.A. loan to W.M.A.); and $25 million for hospital operations, with the total being split equally between the St. Croix and St. Thomas medical facilities. The sum would also cover working capital of $60 million in an existing line of credit to keep the government operational until the transaction is closed.

Mr. Mapp has called a press conference at Government House on St. Croix today, where he will discuss the bond issue, and the government's dire need of the cash that it is currently struggling to access. The money is needed by February, after which the government may need to take drastic measures to keep afloat. The governor has been peddling his five-year economic growth plan, which seeks to raise taxes on "sin" products such as cigarettes, rums and timeshare unit owners. The measure was before the 31st Legislature late last year, but that body relinquished passage responsibility to the newly inaugurated 32nd Legislature, whose approval the governor has been courting with meetings at both government houses in St. Croix and St. Thomas.

In the past, rum cover-over bonds, and to a lesser extend gross receipt tax bonds, were enough security for the bond markets to borrow money to the territory. But following Puerto Rico's financial collapse, the territory's standing, albeit unfairly, has suffered damage. And that's even though the U.S.V.I. bonds, following Bill No. 31-0482's passage, now comes with a lien -- which means even if the territory were to file for bankruptcy, bondholders would be paid first, before the territory could satisfy even essential needs from taxes collected from its rum products (over $250 million annually) and gross receipt taxes.

In essence, bondholders have a chokehold on the territory’s finances, as they would be paid first no matter what trouble the territory faces. And if the Virgin Islands falters further into financial crisis, per its new lien commitment, it would not be able to pay, say, teachers, and other essential employees; it would not be able to do anything in the way of payments to its own government and essential services, unless bondholders were first financially satisfied.

Yet, even after placing the lien, the G.V.I. is struggling to access the bond markets. It needs to produce more taxes to convince debtors of its ability to repay its covenants, which now come at higher interest rates because the territory's bonds are at junk status.

Feature Image: Money trap.