

The Virgin Islands Consortium

While Clock On Virgin Islands Continues To Tick, Senators Have Failed To Introduce Rescue Plan

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ST. CROIX -- During a press conference held at Government House here on Friday, Governor Kenneth Mapp delivered a dire message to residents of the U.S. Virgin Islands, as well as its lawmakers: The territory's attempts to access the bond market --which it needs to secure over \$100 million in funding, most of it for government operations -- failed. Bondholders have become wary of the territory's yearly borrowing without attempts by the government to find a steady flow of cash to satisfy its structural deficit; a problem that keeps the USVI going back to the markets annually.

According to Mr. Mapp, if a sin tax measure is not adopted soon -- the governor's five-year economic growth bill that aims to raise taxes on products such as rum, tobacco,

sugary drinks, internet purchases and timeshare unit owners, among others, or if the Senate fails to introduce a similar bill, which Mr. Mapp says will help raise tens of millions and eventually erase the territory's structural deficit, which totals \$110 million this year -- then come February, the government would struggle to meet operational needs, including payroll, and would be completely incapacitated, relative to making payroll and other operational demands, by March.

Refusal to pass the measure or failure to replace it with something comparable would mean "the curtailing of hours, it would mean furloughing employees, it would mean cutting services, in some areas completely to a halt — it would mean closing offices of the Government of the Virgin Islands in some areas. It would be a drastic impact to the operations of the Government of the Virgin Islands," Mr. Mapp said.

But six days after the governor's warning, and two days following [another downgrade and negative watch](#) of the territory's Issuer Default Rating (IDR) and the ratings of the dedicated tax bonds by Fitch, senators who make up the 32nd Legislature have yet to introduce an alternative. Furthermore, St. Croix Democrats have [signaled their unwillingness](#) to support the governor's plan, while making not a single mention of what they intended to do to address the pending collapse.

Senators Nereida Rivera-O'Reilly, Sammuell Sanes and Novelle Francis all rejected the governor's sin tax proposal, which Mr. Mapp says the bond market has given a positive review and would bolster investors' confidence in the territory's bonds. Mr. Francis said he would like Mr. Mapp to find more "fiscally responsible" measures to avert the financial crisis. He also chastised the Mapp administration for so far not following through on projects such as the repairing of the territory's roads (GARVEE Bonds), and the Paul E. Joseph Stadium project, (the latter being halted by Mr. Mapp after having started just before former governor John P. de Jongh left office), after two years of promises.

"Looking at the big picture, the government's financial position would be in much better standing if long-planned capital projects had begun as promised by Mapp and members of his administration. They have continuously told us that they are ready and we have facilitated the execution of these plans with funding and then nothing has happened," Mr. Francis said.

Yet, while Mr. Francis is now opposing new taxes, in the last few months and as recently as December 2016, he has been adamant about [taxing residents through an increase of the surcharge on communication conduits](#) such as cellphones, landlines and even voice over internet protocol technology like Vonage and Skype. And he chided residents, stating that they are able to find funds to buy expensive, new phones, and that the extra tax was minimal.

"I'm asking you for a dollar; people are buying \$700 cellphones. Every person we meet in this community has a cellphone regardless of their status. We're simply asking them to give up an additional dollar to support their emergency services," he said. (That measure is pending the governor's approval or veto.)

Senators are sending out press releases on various other matters, but not a single senator has made available a plan divergent from the governor's five-year plan aimed at addressing structural deficit.

This even as the warning signs of the territory's impending financial collapse have become more pronounced in the past week.

In a press release issued Tuesday, Fitch says it believes the USVI's failure to date in securing sufficient market access for their planned offering of \$219.23 million matching fund revenue bonds, series 2016A (senior lien) and 2016B (subordinate lien), raises concern regarding both the USVI's ability to access financial markets for their debt offerings as well as the USVI's ability to fund current operations and obligations from a severely strained cash position. Proceeds from the 2016A and 2016B bond offerings were to be applied to funding fiscal 2017 operations of the USVI in addition to other uses.

Fitch also highlighted the uncertain nature of the sin tax measure that Mr. Mapp said the bond market demanded before the U.S. Virgin Islands could gain access to funding. And while the governor said the bond market had reacted positively to the five-year economic growth plan measure — assuring residents that once the measure was passed, access to the market would be once more open to the territory — Fitch did not ascertain in its release that that was the case.

The ratings firm said the negative watch placed on the IDR and dedicated tax bonds will be resolved based on Fitch's assessment of the USVI's liquidity position and its ability to complete a working capital financing. Failure to sell the planned bonds and the increased liquidity strain that would result would be expected to trigger a rating downgrade.

Fitch further believes that the territory's current challenge in accessing the market for its debt obligations exacerbates concerns about the USVI's strained liquidity. The sale was originally planned for August 2016 to provide cash flow for the current fiscal year which began on Oct. 1, 2016. The extended delay in receiving the expected \$147 million in working capital that was to be provided by bond proceeds, \$116 million of which is to be applied to funding general government operations (out of the approximately \$900 million General Fund budget), is expected by Fitch to further weaken the government's liquidity position in fiscal 2017.

The ratings firm also learned that investors have indicated an interest in the governor of the USVI delivering an irrevocable, rather than the annual, instruction letter to the U.S. Department of Interior for the U.S. Treasury to remit the rum cover-over advance payment to the trustee for the bonds. The revised instruction letter has been delivered by the governor to the DOI, according to Fitch.