The Virgin Islands Consortium

Facing Liquidity Crisis, Mapp Formally Submits Proposed 'Sin' Tax Measure To Senate Aimed At Curtailing Incessant Borrowing

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ST. CROIX -- Governor Kenneth Mapp has formally submitted his proposed "Virgin Islands Revenue Enhancement and Economic Recovery Act of 2017" bill to the 32nd Legislature, a "sin" tax measure Mr. Mapp says the bond market is awaiting to be enacted into law before it could start lending money to the territory.

The territory's leader says the measure -- which includes taxes on rum, tobacco, sugary drinks, internet purchases and even taxes on timeshare unit owners -- has been "designed to identify concrete proposals to close the gap in the continuing structural deficits, to curtail continuous borrowing to meet operating expenditures, and to enhance our ability to pay income tax refunds timely," Mr. Mapp said. According to Government House, the proposed measures included in the bill will implement new revenue streams targeting specific non-essential commodities that the governor says will not result in cost of living increases in essential areas.

Government House highlighted certain parts of the measure in its release, including a fee on timeshare units of $30 per unit per day of occupancy, termed an "Environmental/Infrastructure Impact Fee". Given the number of such units in the territory, the fee is expected to generate $23 million in revenue, 85 percent of which would fund the government's obligations to unionized and non-unionized employees as required by the settlement of VIESA lawsuit -- won by employees forced to take an 8 percent pay cut during the Governor John P. de Jongh administration, according to Government House. The remaining 15 percent of collected fees would be allocated for the Tourism Advertising Revolving Fund, the release further stated.

The additional revenues to be generated through the Act, and a reduction in the cost of operating the government, are projected to generate approximately $250 million over five years, the Mapp/Potter Administration estimates. That is if, as the governor urges, the Legislature acts promptly to approve it.

Noting that rating agencies have continued to downgrade Virgin Islands Government bonds despite many encouraging signs in the local economy, Mr. Mapp, in transmittal letter to Senate President Myron Jackson, emphasized, "We anticipate potential further deterioration in credit quality if the USVI does not take definitive action to address its current fiscal position."

The territory's various bonds have been battered by ratings firms, with the three major U.S. companies -- Fitch, Moody's and Standard and Poor's all downgrading the territory's bonds -- many now at junk status. The latest downgrade came through Fitch, with the firm further placing the bonds -- Virgin Islands' Issuer Default Rating (IDR) and the ratings of the dedicated tax bonds -- on negative watch.

Fitch cited its increased concerns about the territory's liquidity following its difficulty in securing market access for a planned working capital borrowing. The firm 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.