

The Virgin Islands Consortium

USVI On Precipice Of Collapse, Says Veteran Bond Market Reporter

Business / **Published On January 25, 2017 11:09 AM /**

Staff **January 25, 2017**



The U.S. Virgin Islands is on a path towards collapse that will be worse than Puerto Rico's economic meltdown, says Forbes contributor Simone Baribeau, a senior [Debtwire](#) reporter covering U.S. territories, nonprofit hospitals, and industrial development bonds for Debtwire Municipals. Debtwire reporters, according to the site, report on debt situations -- backed by expert analysis and in-depth market coverage -- before credit ratings are downgraded.

Contributing on Forbes, Ms. Baribeau gave a reality-inducing forecast of the USVI, stating at the beginning of her article's second page that, "Without question, the USVI is farther down the path of financial crisis than Puerto Rico was in August 2013."

Ms. Braibeau wrote that it would take "nothing short of a miracle" to prevent the territory from going down Puerto Rico's path. She highlighted key initiatives such as the restart of portions of the former HOVENSA oil refinery as a possibility to avert collapse, but added that it looked less likely since the Mapp administration revised its [five-year economic growth "sin" tax plan](#) to exclude an assumed \$20 million a year that the reopened facility, now an oil storage terminal, would generate. Ms. Braibeau also pointed to the tourism industry as another way to help lift the territory out of economic gloom, but said the industry would have to "completely reinvent itself and encourage tourists to spend more money on the island rather than on the ships" -- something she added that was "clearly not going to happen." Ms. Braibeau said there was room for the USVI to increase its per head tourism tax, but that alone would not be enough fix the problem.

"Without those measures, or something equally miraculous, the USVI is poised for a financial collapse," Ms. Braibeau wrote. "When will it happen? As soon as investors decide to keep their wallets shut."

Below are three paragraphs, in italics, of Ms. Braibueau's piece, [as seen on Forbes](#).

Potential USVI investors, even with tax exempt yields at up to 7.75%, balked earlier this week at buying debt from the troubled territory. It's looking to go back to market later this month, asking for a gubernatorial order promising that the islands will really, most sincerely pay back the debt— a promise that's less believable now than before Puerto Rico's default. With only 9 to 10 days of cash on hand, the islands have been mum about how long they have before they run out of money if they can't get this sale to go through.

But it's worth looking back to what caught Puerto Rico investors off guard. It wasn't a piece of economic data or a financial disclosure that was the precipitating factor to their bonds tanking. It was an August 2013 front page article in Barron's that laid bare the grimness of Puerto Rico's fiscal situation. So how does the USVI match up?

Worse, on virtually every measure. Yields are higher than Puerto Rico bonds were at the time, and even then the USVI hasn't yet been able to enter the market, bond ratings are already junk rather than "barely investment grade." Per capita debt is more than a third higher, the economy has contracted by significantly more, and both are borrowing to fill long-time massive budget gaps. While the USVI's overall tax-supported debt at \$2 billion is much lower than Puerto Rico's \$53 billion in tax-supported debt, per capita debt is about a third higher: \$19,000 in the USVI compared with \$12,000 for Puerto Rico.