

The Virgin Islands Consortium

V.I. Government Halts Attempts To Access Bond Market Even As Funds Run Out

Government / **Published On January 26, 2017 11:17 AM /**

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ST. THOMAS -- The Public Finance Authority on Wednesday issued a statement making the case as to why Governor Kenneth Mapp's five-year economic plan was put forth, how the government has been working to enhance liquidity, and why the government would wait to reenter the bond market.

The statement comes even as the government continues to run out of operating capital; a daunting situation for a government whose operations are vast, with thousands of employees to pay and a myriad of services to run. And the troubles have been compounded by ratings firms that have battered the territory's bond ratings, with [Fitch](#) and [Moody's](#) further downgrading multiple bonds in the span of one week.

In the statement, the P.F.A. says the governor's five-year economic plan was based on "important issues" pointed out by ratings firm Standard & Poor's, concerning the territory's debt load and financial health.

"That is why the governor had ordered that a five-year plan be developed with the goal of reducing the government's deficit and developing a road map to fiscal stability. We believe the five-year plan is [the] blueprint to deal with reducing government structural deficits and provide fiscal balance and economic growth," reads the statement.

In its last downgrade of the territory's bonds (rum cover-over and gross receipt tax bonds), Standard and Poor's [listed some offsetting factors](#) that would help improve the USVI's standing in the bond market. They include the following:

- A five-year fiscal recovery plan, which if implemented, could begin to address some of the USVI's long-term structural challenges;
- The potential for growing employment following the new operating agreement with Limetree Bay Terminals LLC.

Standard & Poor's is the only firm that has yet to further diminish the territory's bonds after its December 1, 2016 downgrade, a decision that may hinge upon the government's ability to pass the five-year plan, dubbed the "sin" tax measure, as it aims to either introduce or increase taxes on tobacco products, rum, beer and sugary drinks, as well as time share unit owners and internet purchases.

"The government has been working around the clock to enhance its liquidity situation which includes cuts in expenditures," reads the statement. "The governor recently signed an irrevocable instruction letter to eliminate the notion that the government would divert matching fund revenues (rum cover-over taxes). More importantly, the government has experienced financial distress in the past and has never defaulted on any of its secured debt. The matching fund and gross receipt bonds are secure."

But in its downgrade on Tuesday, [Moody's said](#) while it has taken into consideration the government's structural features to keep bondholders secure, "We note, however, that these security provisions have not been tested in a stress scenario where the government faces a severe lack of funds to provide basic services and we believe they do not protect bondholders in the event that the government is forced to restructure its debt."

The Legislature is currently reviewing elements of the five-year plan, and the Committee on Finance will be meeting on Tuesday -- the day after Mr. Mapp's State of the Territory Address -- to consider the recommendations, according to the statement.

The P.F.A. says it has taken important steps to increase tax collection by adding more tax examiners "and increasing hotel and timeshare occupancy taxes." First quarter of the fiscal year (October – December) tax revenues are expected to beat targeted budget expectations, according to the P.F.A.

As for attempting to access the bond market for capital, the P.F.A. said it would abstain for the time being. "When appropriate credit and acceptable interest rates are present, the VIPFA will assess whether to reenter the bond market," reads the statement.

How long it will be able to hold out as funds continue to run out, the P.F.A. did not say. Instead, it pointed to a recent report by the U.S. Bureau of Analysis, which revealed that the territory's gross domestic product, bolstered by tourism and consumer spending, [had inched up by 0.2 percent in 2015](#) after decreasing 1.0 percent in 2014. It was the first time the territory's GDP had grown since 2010, according to the bureau.

Feature Image: From left to right: Finance Commissioner and PFA Director Valdamier Collens, Governor Kenneth Mapp and Office of Management and Budget Director Nellon Bowry. (Credit: Government House)

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