

The Virgin Islands Consortium

USVI At 'Critical Juncture,' Says Director Of U.S. Office Of Insular Affairs

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The director of the U.S. Office of Insular Affairs, which coordinates federal policy for U.S. territories as part of the Interior Department, including funding, has said in an interview with the Wall Street Journal that the U.S. Virgin Islands is at a critical juncture, and suggested that leaders should weigh carefully their decisions moving forward.

The comments from O.I.A. Director Nikolao Pula came as part of an article on The Journal titled, ["Welcome to the Virgin Islands, One of the Most Indebted Places in the U.S."](#), which examined the territory's financial condition, and like others before it, gave a grim outlook.

"I think this is a critical juncture," Mr. Pula said, referring to the territory's economic and financial outlook, "We just hope whatever decision they make will be good moving forward."

In the article, The Journal says:

With less revenue, the territory has relied increasingly on bond proceeds to pay operating costs while contributing less to pension plans. That borrowing has increased its debt to a level similar to that of Puerto Rico, on a per capita basis.

The lower pension contributions widened the funding gap for a retirement system that covers 9,303 current workers and 8,465 retirees and past workers, according to the fund's 2015 financial reports.

The Wall Street Journal's report was not the first of its kind. Last week, a senior [Debtwire](#) reporter covering U.S. territories, nonprofit hospitals, and industrial development bonds for Debtwire Municipals, said that barring a miracle, the USVI would witness its own financial demise [sooner rather than later](#).

The reporter, Simone 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."

The piling news coverage on the territory's financial state by renowned papers such as the Wall Street Journal, only adds to investors' wariness about investing in the territory's bonds. The government recently made known that [it would not return to the bond market](#) until conditions were favorable for borrowing. But the answer to the question of whether bondholders will even be willing to open their coffers to the territory, far less on terms favorable to the government to satisfy the USVI's structural deficit of \$110 million, is not a mystery. Bondholders' interest in a January 11 offering was tepid at best, and that was even after Governor Kenneth Mapp requested that federal funds backing the bonds be wired directly to an escrow agent with the aim of alleviating concerns that the territory would divert the money if the financial situation worsens.

And with all three major ratings firms further downgrading the already junk status bonds of the USVI, the market has become unfriendlier, a major reason being the firms' assessment that though the USVI has placed liens on all its bonds and has never defaulted, the setup hasn't been tested in a stress scenario, where the government would have to weigh either paying its employees or paying its debtors.

Mr. Mapp will speak directly to residents during his State of the Territory Address on Monday, where he is expected to address the USVI's financial woes, while highlighting what he will say is progress his administration has made since taking office, among other topics.