

The Virgin Islands Consortium

Day Of Reckoning: Mapp Set To Address Territory Amid Fear Of Financial Collapse

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ST. THOMAS -- Governor Kenneth Mapp is facing arguably his most difficult year yet as governor of the U.S. Virgin Islands, and his State of the Territory Address (SOTA) to be delivered at the Earl B. Ottley Legislative Hall tonight is no less punishing, as the governor will have to communicate to the territory's residents unpopular steps his administration will have to take in light of the financial crisis that many have predicted will see the USVI suffering worse effects than [Puerto Rico's economic depression](#).

The SOTA comes on the heels of [multiple downgrades of the territory's bonds](#) by all three U.S. ratings firms, whose outlooks on the territory are also negative.

In simple terms, the territory has a structural deficit of \$110 million that it has annually accessed the market to satisfy. Year after the year, the government has neglected the issue of restructuring its operations to rectify the problem -- whether through austerity measures, new taxes, the downsizing of government or even a mixture of the aforementioned -- instead relying on its ability to float bonds (take loans from banking firms and investors), which the government has historically repaid through rum taxes from Diageo and Cruza Rum, and gross receipt taxes.

But with a total debt of \$2.2 billion, the territory's debt has increased to a level similar to that of Puerto Rico's on a per capita basis. This new reality has jolted investors, who have become wary that eventually the government may not be able to meet its debt obligations.

Further compounding the already bleak outlook is the the territory's pension system that covers 9,303 current workers and 8,465 retirees and past workers. Contributions have been lower and, along with [bad decisions by the board](#) as well as the government, the Government Employees' Retirement System now has an unfunded liability estimated to be anywhere from \$1.7 billion to [\\$3 billion](#). Without a massive infusion of cash, GERS is set to collapse in 2024 -- leaving thousands of residents without annuity payments; a benefit that a great swath rely on to survive.

With a \$110 million budget shortfall, the government must take drastic measures to offset the gap. Some ideas that have floated during conversations at Government House according to sources familiar with the talks, who requested anonymity to make known confidential discussions, include 4-day work weeks and the laying off of hundreds of government employees. The Mapp administration has also formally submitted its five-year economic growth plan to the 32nd Legislature in hopes of getting it approved. The measure either introduces or increases taxes some "sin" products such as rum, tobacco products, sugary drinks and beers, as well as timeshare unit owners and internet purchases.

But senators and the private sector alike have come out against the proposal as too draconian. On Friday, a coalition of business organizations [introduced their own alternative](#), which they said would not stop the impending economic collapse, but would soften the impact.

"These new taxes will take money out of the pockets of Virgin Islanders, undermine economic development, damage our critically important tourism industry and not be accompanied by the serious reductions in recurring expenditures that we believe are vital to addressing financial sustainability," the coalition said. "The private sector proposes consideration of an alternative set of revenue and expenditure measures in lieu of the proposed increases in sin taxes, and believes the quid pro quo for agreeing to absorb any new revenue measures must a real, and accountable commitment to a broad reaching and sustainable rightsizing of the government. Without such a real and sustainable reduction in spending, the future financial viability of the private sector, the government and its responsibility to the Government Employees Retirement System are at peril."

The governor in the past has said he would welcome an alternative idea; his mindset being anything to stave off collapse. "A rejection of the identification of new and

immediate revenues to the territory, particularly to satisfy the financial markets that we're moving out of structural deficits, would be a decision equal to saying that we would be cutting 11 to 14 percent of the budget for the Government of the Virgin Islands," Mr. Mapp said in response to a question posed by a Consortium reporter [during a press conference earlier this month at Government House on St. Croix](#). "That \$110 million removal from the current budget of \$787 million, I am not prepared to stand before the community and say this is exactly what that means, but I do not believe that there could be any person in this territory that believes that the removal of \$110 million from the operating budget of the Government of the Virgin Islands, would not be an action that is painless."

The governor said his five-year plan had been vetted by the market, but the ratings firms, in their latest downgrades, said while the measure was a first step in the right direction, there was no certainty that it would produce the results the Mapp administration has projected, some \$250 million in five years.

As one veteran Debt Wire reporter [opined last week](#), barring a miracle, the U.S. Virgin Islands is in for tough years ahead, undesirable news that Mr. Mapp -- approximately one year following his [confident remarks that the territory was on a path to recovery](#) -- will have to deliver to residents tonight.

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