

The Virgin Islands Consortium

Virgin Islands At Crossroads, Mapp Says At State Of Territory Address

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ST. THOMAS -- When he took to the podium at the Earl B. Ottley Legislative Hall on Monday, it was expected that Governor Kenneth Mapp would relay to residents the true condition of the territory's finances, while, as all politicians do, speaking on the apparent successes of his administration.

The governor had also been expected to calm the fears of anxious Virgin Islanders who have been reading and hearing about an impending financial collapse, which would reverberate across all segments of the community.

It would appear that the governor struck the balance that his administration was hoping for, by using a "tale of two Virgin Islands" analogy that summarized the territory as being on the brink of collapsing, while at the same time being on the verge of an awesome economic recovery.

It was as if the governor placed the USVI at a crossroads: one path leads to a bright future with job growth, economic resurgence, improved healthcare, paved roads, reduction in crime, and an improved education system for the territory's youth. The other path saw the islands being led down a long, difficult road of economic depression à la Puerto Rico.

"Well, on one hand our economy is stronger than ever and growing, but on the other we need to address the cash flow issues in the public sector. We have financial challenges, which require real action on all our parts," he said.

The path chosen, Mr. Mapp said, is dependent on Senate action on his five-year economic growth bill dubbed the sin tax measure, or a similar alternative, that he believes will allay the wariness of the bond market in buying the territory's bonds. He then painted the bleak outlook if the Senate failed to act.

"If we do not act, I want you to know that by the second pay period in February, the Government of the Virgin Islands may not have enough money to make its payroll," Mr. Mapp warned. "If we do not act to authorize meaningful measures to eliminate our structural deficit, we will create a serious domino affect across our community. So let us take real action to bring our territory to fiscal health, not for the investment community, but for us now and generations to follow.

"If we don't take decisive action, jobs will be lost and services will be curtailed due to the reduction in cash flow."

The sin tax measure billed with ensuring an economic resurgence, if signed into law, would introduce or increase taxes on products such as tobacco, rum, sugary drinks (think Coke, Pepsi, Sprite), as well as timeshare unit owners (\$30 per day) and even internet purchases. A coalition of private sector businesses came out forcefully against the measure, stating that it would hurt an already weak economy. But Mr. Mapp said the aim of the measure was not to burden residents; instead, the measure would target tourists.

Yet even as the governor expressed confidence that the enactment of his five-year economic growth plan was the only sure way to regain access to the bond market, the three U.S. rating agencies were not so confident, with Moody's noting that the legislature has not enacted the revenue increases, and that it remains uncertain that the revenue and spending initiatives would actually generate the anticipated savings.

Even so, the governor appeared on Monday night to hinge in great portion the territory's future on its enactment. He also attempted to inject confidence in bondholders, detailing multiple reasons why the USVI's bonds, though currently at junk status, were still a safe bet for investors. He listed the safeguards already in place -- including a lien on all the territory's bonds -- as reasons why the USVI could be trusted.

"In the entire history of the U.S. Virgin Islands, no creditor has ever sought access to our debt service reserve fund because the people of the Virgin Islands have never been late

on a payment, much less defaulted on a bond or loan agreement," Mr. Mapp said to rounds of applause.

The rating firms, however, were not so optimistic.

"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," Moody's said [in its latest downgrade of the territory's bonds](#).

So there's still the question of whether the bond market would still refuse the territory's bonds after the sin tax measure's enactment. If that occurs, government austerity measures -- including layoffs, furloughing of employees, cutback in services -- would be swift.

Ignoring the possibility of further rejection by the bond market following the enact of sin tax bill, which Mr. Mapp said would raise \$250 million in five years and be used to eliminate the government's structural deficit, the governor spoke of an economy that's on the rise, a falling unemployment rate, progress as various government department and agencies, pay increases implemented last year, construction set to begin on multiple roads territory-wide, development of projects such as the Paul E. Joseph Stadium, and other initiatives as reasons why the U.S. Virgin Islands was about to experience some resurgent years.

"For me, this time is truly a Tale of Two Cities, a story of two realities. It is the best of times, it is the worst of times, it is the age of wisdom, and an age of foolishness... it is the season of Light, it is the season of Darkness, it is the spring of hope, it is the Winter of despair; we have everything before us, we have nothing before us, " Mr. Mapp said.

"Despite our current challenges, I am so hopeful for the future of these islands. We are truly beginning to achieve great things and we stand at a fork in the road. So we must decide which reality we want to charter. Now is the time that we must decide whether to believe in ourselves and in our capacity to be better and to do better. Tonight I pledge to continue on the road towards prosperity, to a brighter future for our territory."

But the governor's happy ending tale hinges in great part on bondholders. And residents will know soon if the enactment of a sin tax measure will be enough to open the market's coffers.