

The Virgin Islands Consortium

Exclusive: With 6 Days Cash On Hand For Territory, Finance Commissioner Talks About Next Steps For U.S. Virgin Islands

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ST. CROIX -- In a long-ranging exclusive interview with The Virgin Islands Consortium Wednesday night, Department of Finance Commissioner and Public Finance Authority Executive Director Valdamer Collens, spoke in careful but blunt terms about the financial condition of the territory, the status of the V.I.'s ability to access the bond market, measures that will be taken to mitigate the impact of a government that's struggling to maintain liquidity, and why the process of a long-delayed government overhaul must begin in short order.

From the onset of the interview, Mr. Collens was straightforward, as he's always been with this publication, about the territory's financial condition. "The days cash on hand is approximately 6 at this point," he said. He reiterated that the Government of the Virgin Islands could no longer access the bond market because of the territory's junk-status bond rating, a structural deficit that has lingered for over a decade, and the market's lack of confidence in the government's ability to reform itself.

"It's not even an assumption anymore, we have to act in a way in which we don't have access until we demonstrate to ourselves -- not to the bond market -- that we want to fix our structural deficit. So for starters we know \$110 million is out of the budget, and so we have to act accordingly to adjust and revise our budget," Mr. Collens said.

The day of reckoning, then, is here. While Governor Kenneth Mapp was not clear during his State of the Territory Address on this matter (Mr. Collens argued that the governor was), Mr. Collens said the territory would not even attempt to access the market anytime soon, whether or not the 32nd Legislature passed the governor's proposed five-year economic recovery sin tax measure. And even if the measure were to become law, both the bond market and the government would wait up to a full year or more before restarting negotiations. The commissioner's words were a blunt and sobering acknowledgement that the financial collapse was no longer going to happen, but is now in play.

This means, Mr. Collens acknowledged, the furloughing of government employees, cutting back on government services, deep cuts in the budgets of all government departments and agencies, assessing positions within the government and searching for areas where excess and positions could be eliminated.

"We have to show investors that we are willing to look at new revenue enhancement measures, as well as [moderating] our expenditures. The thing is we have to realign and right-fit our budgets to ensure that this misalignment doesn't occur -- because if you don't have access, well then you have to fix your budget," Mr. Collens said.

"If we are able to pass measures that investors will view as we are addressing our structural deficit, that would bode well to the investors, but they're not going to jump out tomorrow and say, 'Oh, come back to the market.' They're not going to do that," he added.

Mr. Collens likened the situation to people who lost their homes during the 2008 housing crisis and could not pay their mortgages. A wide swath of them had to foreclose on their homes.

"What that person does, they go through the foreclosure process, deleverage, fix their credit, and that takes a little bit of time. And then once all of that is corrected -- which could take three months, six months, a year -- that's when you can say, 'Okay, now I'm going to apply for a loan because I know the probability of a denial letter is low,'" Mr. Collens said. He said the government shouldn't be doing anything that is going to generate new revenue based on the market's decision to stop lending to the territory. "We should be doing it to correct the problems that we have and once that's done, and we feel like we have addressed a material amount of issues, it is at that point that we could then go back and approach the market for, say, capital projects, just to give you an

example," Mr. Collens said.

Asked whether that meant government employee reductions, furloughing, 4-day work weeks, and cutbacks in government services, Mr. Collens said that was "absolutely" what was going to happen.

"A combination of all of what you said is on the table because the issue, and I want to be very clear, the issue is liquidity. Cash. Do you have cash to pay for expenses that are here today, and because we don't have access to our line of credit, because we can't go to the bond market and get access to working capital, we've got to fix these things and we've got to develop a stringent plan," Mr. Collens said.

Mr. Collens was reminded of the governor's remarks during his State of the Territory Address, when he described a tale of two Virgin Islands. He said essentially that [the territory was at a crossroads](#), and the choices made now would determine whether the USVI would experience an economic resurgence, or whether it would head down a path similar to Puerto Rico's. And, the governor suggested, the path chosen was dependent on the 32nd Legislature's decision to act on a sin tax measure that the governor proposed, or a similar alternative, as well as cutbacks where possible.

The governor never said that there were job cuts coming, or that access to the market would not be an option, possibly for a year or more -- even if the sin tax measure was approved.

"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 on Monday. "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."

Mr. Collens told The Consortium that the governor was working on an executive order, to be issued soon, that would see deep cuts in virtually all areas of government, which will commence the structuring process to offset the \$110 million. It's the only way to maintain liquidity, Mr. Collens said.

"We have to adjust our budget, we have to adjust our expenditure levels, we have to employ certain measures like furloughs and other reductions across the budget to get us passed... Right now our toughest months are February and March; we get to April, because there's usually an influx there, things may taper off. But it's no longer an assumption. What the governor said is, 'You need to pass some semblance of these measures that we proposed in order for us to access the capital markets, in my opinion, eventually. But if it passed even today, it's not like the markets are going to say, 'Okay, come back.' Nor would I feel comfortable in saying, 'Okay, fine. I'll go with the rates as they are today.' No. It's better to wait, it's better for us to bite the bullet now. That's what it's about. It's about biting the bullet. People don't believe and they haven't believed for a long time," Mr. Collens said.

The finance commissioner then said the financial difficulties being faced by the Mapp administration, were caused by the Governor John P. de Jongh administration's

incessant borrowing, racking up upwards \$800 million in debt during Mr. de Jongh's tenure.

"In the last six years of the previous administration, they were able to amass upwards \$800 million in working capital. And so all that was happening is they were kicking the can down the road. They kicked the can to the Mapp administration, now the Mapp administration, we've done everything that we could do to address the matter by doing some economic development initiatives with the [racinos](#), with [Limetree Bay](#) which, don't forget, the Limetree Bay transaction avoided us from going to the capital markets in 2016," Mr. Collens explained.

And the bond market, Mr. Collens continued, may change the goalpost once the sin tax measure is passed -- just as it did when the [lien measure](#) was approved.

"Honestly, I would say the goalpost keeps moving as it relates to the markets. They're going to say, 'Great! Wow! We didn't think you could do it. Now let's see how your revenues are coming in with these measures after six months.' This is why the reality must set in because people have been under the the assumption that, 'Oh, the government has money. Oh, they always figure it out.' And they were able to do that during the last administration, and really just to appease people. But the reality is that they were borrowing. Borrowing is not a policy for good, prudent decisions," Mr. Collens said. "Our options are not as vast as they were before. The markets have spoken."

But while the government is expected to cut jobs, reduce budgets and cutback on services, Mr. Collens said the Mapp administration is also pursuing other options to help maintain liquidity, as well as reduce the impact of the austerity measures. He spoke of Revenue Anticipation Notes, which allows the government to secure funds to be paid within a year with monies generated through property taxes (Mr. Collens mentioned local banking partners) as a way to possibly keep government services running and some employees from being furloughed. The government would first have to convince these partners that its plan assured full payback within the time agreed upon. If the banking partners agree, "Then hey, maybe I can get some cash upfront that I have to pay within a year that might help us," he said. "So we're still working on a lot of different options, we're not giving up and saying we're going to cut, cut, cut. There's still other things that we could try and will continue to try."

Within the Mapp administration, there's talk of furloughing between 500 to 1,000 government employees. Mr. Collens seemed to acknowledge these considerations while revealing other plans. "Certainly we can go to each department and agency and say, 'Listen, you come back to me as to how you're going to reduce your existing budget by 20 percent between now and the end of the year. We have to go to each agency and do that,'" he said. Other options, according to Mr. Collens, include deferring certain items. "I would love to pay tax refunds, and I know I owe it, but I can defer paying those until the cashflow builds up. There's various things that we can do to try, but I think it's a combination of all of that: deferment, reductions, trying to pursue other facilities that might provide cash -- it's a combination of things that we are working to achieve," he said.

On the overhauling of government, Mr. Collens mentioned what he called areas of excess capacity with no accountability, which he said needed to be eliminated. He said

the government does not have structure, and alluded to an item within the governor's five-year plan that calls for reorganizing all the finance officers under the Department of Finance.

"That's a good thing because first of all there will be better accountability. Number 2, we can get officers to follow policies and procedures as written versus a CFO telling me, 'I have to get back to you on that, I have to get back to my commissioner.' Those days have to be over," he said. The restructuring will also help identify who the best CFOs and deputy CFOs are, and who the best analysts are that fall under those directors.

"Everybody else will either have to be retooled or, you know, that excess capacity goes away," he said.

Mr. Collens also spoke of restructuring the IT operation in the government. "Lots of IT professionals throughout our government, but they have no structure. If you reorganize them and figure out who the best are, you reorganize them under BIT, it will better serve the government, and you may figure out that there's a bit of excess capacity IT officers that are not necessarily IT officers. So this is good for us."

Even with all the territory's troubles, Mr. Collens said the USVI is in a starkly different position than Puerto Rico for the following reasons: "We've never defaulted and we don't plan to default," he said. Mr. Collens alluded to the setup that gives bondholders first priority. "The default risk is extremely low; that has to be touted," he added. The second example Mr. Collens gave was the five-year economic growth plan that the governor presented as a proactive measure, which is unlike Puerto Rico, he offered, because "they waited for an oversight board to do it for them. We are ahead of the game. We know the problem so it's a matter of political will on all sides."

Additionally, Mr. Collens went on, the government has found areas that could now be tapped into, where in the past monies were left on the table. He again referred to the sin taxes as one example. He said there are "various other areas where we can grow revenue, whereas Puerto Rico, they've exhausted all the areas, in my opinion, where they can grow revenue. So we're completely different from Puerto Rico for those reasons and others that I can't think of off the top of my head," Mr. Collens said.

As for the business community's opposition to the measure, Mr. Collens said the current situation calls for all hands on deck, with all segments of the working community sharing the burden.

"We're all in this ship together, and there has to be a middle ground where we all can meet. We chose, for example, two measures: sin taxes where a majority of the products are used by the transient population that comes in and out of here. And so we see that there's room for those customers to pay a reasonably better share of taxes to the government. What we're saying to the private sector is, 'Look, we don't want to make it uncompetitive, and our analysis proves that if we price it correctly, we won't be uncompetitive.'"

Feature Image: Valdamier Collens. (Credit: Government of the Virgin Islands)

