The Virgin Islands Consortium

Warren Mosler Proposes 'Mosler Bonds' To GVI As First Step To End Territory's Financial Crisis

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As the government is searching for ways to offset a $110 million budget deficit, which Dept. of Finance Commissioner and Public Finance Authority Director Valdamier Collens said would result in furloughs, layoffs and deep cuts at government department and agencies through an executive order that was to be issued by Governor Kenneth Mapp (Mr. Mapp Mapp later denied that any such action would take place, although he said just as much in January), 2018 gubernatorial candidate Warren Mosler, through a press release issued to various media houses on Friday, said he'd proposed to the Government of the Virgin Islands what has been dubbed "Mosler Bonds" as the first step to reverse the current financial crisis faced by the U.S. Virgin Islands.

"I have made the proposal to the USVI government that Mosler bonds be issued and sold as a necessary first step to end our financial crisis," Mr. Mosler said.

The candidate described the bonds as being identical to the territory's current tax-free municipal bonds, with one exception: With Mosler bonds, the standard default clause in the bond indenture that begins with "In the event of default", is replaced with, "In the event of nonpayment this bond becomes a USVI tax credit that is freely transferable and continues to accrue interest, and can be used for payment of any and all taxes due to the USVI."

The idea, according to Mr. Mosler, is that while the Government of the Virgin Islands continues to rely on matching fund bonds (rum cover-over) from Diageo and Cruzan Rum rum sales, with the transferable tax credit concept that is part of the Mosler Bonds, USVI bond holders can get paid from anyone that owes the Government of the Virgin Islands (GVI) taxes. That means if the government were to default, bondholders would recoup most, if not all of their funds, he said.

Where would most of these tax dollars come from? "The bonds can be used for payment for any taxes to V.I. Government -- income tax, gross receipts tax, property tax any tax," Mr. Mosler said.

In 2016, the GVI collected over $300 million in income tax revenues. Mr. Mosler explained that once a taxpayer writes a check to the government, the check must clear. So, instead of applying the tax credits to the government, the bank would notify the government it was applying the funds to the transferable tax credit.

"This eliminates an investor's default risk, allowing the Mosler Bonds to be issued and sold at less than half the interest rates currently faced by the USVI," Mr. Mosler said. He said the Mosler Bonds can be issued in sufficient size to refinance all existing USVI bonds at lower rates. Furthermore, he added, by refinancing with Mosler Bonds, which have no reserve requirements, over $175 million of reserve funds that the USVI has borrowed that are currently held in escrow as collateral for existing USVI bonds become immediately available for the general fund."

There's a caveat: If the government were to default, it would no longer have access to the over $300 million income tax revenues that it generates annually, crippling its ability to operate. However, with the government touting its impeccable history of never being late with debt payments, and a structure that sees bondholders being paid first on rum-cover revenues collected from Diageo and Cruzan, chances of default, lawmakers and Mr. Mapp have said, are extremely low.

Mr. Mosler, a local millionaire, business owner and economist, told The Consortium on Friday that he designed the Mosler Bonds concept roughly 10 years ago. He proposed the idea to Greece, but it was not implemented there.

"They were cleared and presented to the Greek government by a leading law firm in Athens. And while the merits of using Mosler Bonds for public finance were understood, the Greek government decided to instead act only as specifically directed by the European Union, which had presented an alternative financing plan supported by the European Central Bank," Mr. Mosler said.

The concept was also introduced to Puerto Rico, and Mr. Mosler is preparing to meet with the commonwealth's leaders on March 2.

As for the local government, Mr. Mosler said he's yet to receive a response.

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