

The Virgin Islands Consortium

Financial Crisis: What Happened To The \$100 Million Windfall Identified By Plaskett?

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While Virgin Islands lawmakers and the Mapp administration continue to debate a contentious sin tax bill, which culminated in a [massive protest in St. Thomas on Thursday](#), and which continues to be [passionately opposed by the business community](#) and a large swath of Virgin Islanders, the announcement of a purported \$100 million windfall in miscalculated rum cover-over funds owed to the territory, which was ostensibly identified by Delegate to Congress Stacey Plaskett, has made no headway.

There's been no comment on the matter from Government House; lawmakers have remained mum, and Ms. Plaskett has yet to issue a followup press release after her initial announcement [almost two weeks ago](#).

The funds would serve as a saving grace for the \$110 million budget deficit that is disrupting government operations, and perhaps forestall the passage of Mr. Mapp's unpopular sin tax measure, which the administration says is needed to rid the territory of its structural deficit, and bolster the bond market's confidence in the government's ability to continue meeting its financial covenants.

In her announcement on February 6, Ms. Plaskett said her office had conducted research which uncovered the possibility that Virgin Islands rum cover-over revenues since the Diageo agreement may not have been properly adjusted to reflect the new production of rum in the Virgin Islands — denying the territory of tens of millions of dollars over time. According to Ms. Plaskett, under the Caribbean Basin Initiative (CBI) of 1983, Congress provided both Puerto Rico and the Virgin Islands with additional cover-over of rum excise tax revenues derived from rum imported into the United States by other nations. She added that the allocation of these additional cover-over revenues is apportioned according to the relative import of rum into the United States by Puerto Rico and the USVI. Treasury regulations provide that the Virgin Islands may earn between 12-49%, with Puerto Rico qualifying for approximately 51-88% (depending upon each territory's respective local production percentages) of these additional worldwide rum excise tax revenues, according to the delegate.

The delegate further stated that according to Securities and Exchange Commission filings by the Puerto Rican government, The Government Development Bank of Puerto Rico has indicated that Puerto Rico's percent of production fell to approximately 49% with the Virgin Islands' increase in rum production. The CBI allocation to the Virgin Islands, however, has not changed as contemplated by the law, resulting over time in nearly \$100 million in lost revenues to the Virgin Islands. Ms. Plaskett said she formally requested that the production amounts be reviewed and, if it is in fact determined to be the case, the correct allocation of monies be given to the Virgin Islands as soon as possible.

"Our agreements with rum producers should afford the people of the Virgin Islands the largest percentages contemplated by the law to assist in job creation, and, more importantly, funds for the public good. It would appear, however, that the appropriate percentage has not been calculated and attributed to the Virgin Islands. The repercussions of the failure to calculate this ratio are so severe that the Government of the Virgin Islands may be due CBI allocations as high as \$100 million. Given our current financial situation, these identified funds come at a time when our territory could truly use them," Ms. Plaskett said.

In an interview with this publication on the same day of the announcement, Ms. Plaskett said it was now [up to the governor to pursue the identified funds](#): "I can make request of Treasury to give us the money. However, if Treasury shortchanged us and we'd have to aggressively go after Treasury, it's going to have to be from the Government of the Virgin Islands because it was miscalculated, and the Virgin Islands Government and its general fund was shortchanged," she said. "Which is why the governor and our Legislature would have to be involved in it, because only the governor can bind the territory."

Even so, Government House has yet to issue a single press release, statement or comment on the delegate's potential windfall, and Ms. Plaskett, if she is still pursuing the funds, has yet to let the public know about her efforts.

The delegate announced [a series of town hall meetings](#) taking place territory-wide from the 21 to the 23 of this month.

What is rum cover-over funds?

Rum cover-over, or matching fund revenues are remittances paid by the federal government to the Virgin Islands' government, pursuant to U.S. statutes, of a portion of federal excise taxes collected on rum produced in the Virgin Islands and shipped to the US mainland. They have been paid to the government annually for over 50 years. Payments are made based on a "cover-over rate" set by Congress. Current statutes provide for a cover-over rate of \$10.50 per proof gallon. Congress has annually increased the cover-over rate to \$13.25 since 1999, in some cases retroactively. In August of each year, the Virgin Islands' governor requests a matching fund prepayment from the US Department of Interior based on estimated rum shipments for the ensuing fiscal year. Prepayment is received in September and subject to a subsequent adjustment based on actual rum shipments during the year.

Diageo, which produces the Captain Morgan brand, completed its Virgin Islands distillery in 2010 and began shipments in February 2012. Prior to constructing its new facility, Diageo purchased bulk rum produced outside of the Virgin Islands on a contract basis. Rum's share of the U.S. distilled spirits market increased steadily through 2011, but declined from 2012 through 2015. Together, Cruzan and Diageo branded rum products accounted for 28.8% of the U.S. rum market in 2015. Cruzan is also the largest supplier of bulk rum to the U.S. Cruzan and Diageo have both entered into 30-year agreements to produce rum exclusively in the Virgin Islands in return for capital grants, operating subsidies and tax exemptions.