

The Virgin Islands Consortium

U.S. Ratings Firm Maintains Negative Watch On Territory's Bonds

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While the Mapp administration has not revealed to the public early results of its five-year economic revitalization plan, which included a number of "sin" taxes on rum, sugary drinks and tobacco products, as well as new property taxes, one of the three major U.S. ratings firms -- Fitch -- on Monday said it was maintaining its negative watch on the territory's Issuer Default Rating (IDR), as well as the ratings of the territory's dedicated tax bonds issued by the Public Finance Authority.

Fitch says the negative watch reflects additional disclaimers and qualified opinions on material components of the USVI's recently released comprehensive annual financial report (CAFR) for fiscal 2016, including the Governmental Activities and General Funds.

According to Fitch, BDO, an auditing company responsible for the V.I. government's annual external audits, "noted a significant lack of requisite documentation to support key financial items" such as: tax revenues, payments in lieu of taxes, income tax receivables, and federal grants.

Because of the significance of the matters leading to the disclaimer opinions, BDO refrained from expressing an opinion on the financial statements of these and other key funds, according the Fitch release, seen [here](#).

Fitch also said that the territory continues to struggle under "significant economic and financial pressures "that are compounded by an extremely high liability burden." The inability to access capital markets for debt issuance has added to the pressure on its financial situation, Fitch said, "with a strained liquidity position giving rise to a sizable escalation in accounts payable."

The ratings firm said the negative watch is expected to be resolved in the near-term following Fitch's analysis of the USVI's financial position in the context of recent audit findings and how, if at all, those findings impact the robustness of updated cash flow statements provided by the USVI. Fitch expects to speak with the independent auditor in the near future.

The IDR and security ratings could be downgraded if Fitch believes the USVI's limited margin of safety has diminished further given its low liquidity, significant financial and economic pressures and extremely high liability burden, according to the release.

The following ratings were placed on negative watch by Fitch on Monday, after the USVI experienced difficulty in securing market access for its VIPFA matching fund revenue bonds:

--USVI IDR rated 'B'; --\$697.8 million gross receipts tax (GRT) revenue bonds, rated 'BB-'; --\$741.4 million senior lien matching fund revenue bonds, rated 'BB-'; --\$147 million subordinate lien matching fund revenue bonds, rated 'BB-'; --\$232.2 million subordinate lien matching fund revenue bonds (Diageo project) series 2009A, rated 'BB-'; --\$34.9 million subordinate lien matching fund revenue bonds (Cruzan project) series 2009A, rated 'BB-'.

Bond security:

GRT revenue bonds issued by the VIPFA are secured by a pledge of GRT collections deposited to the trustee in a separate escrow account for bondholders prior to their use for general purposes. The bonds also carry a general obligation pledge of the USVI.

The matching fund revenue bonds are special, limited obligations of VIPFA payable from and secured by a pledge of and lien on the trust estate of each respective indenture, primarily matching fund revenues associated with rum production at the Cruzan and Diageo facilities located on the USVI.

All current and future GRT and matching fund bondholders have been provided with a statutory lien on the respective dedicated revenue streams, [following passage of legislation granting this lien by the USVI Senate on Nov. 3, 2016](#). The rating on the bonds is two notches above the USVI's IDR, reflecting Fitch's assessment that, even though the bonds are exposed to operating risks of the territory, bondholders benefit from enhanced

recovery prospects due to the statutory lien on the respective revenue streams for bondholders.

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