The Virgin Islands Consortium

Mapp Says VI Government Has Cut Ties With Ratings Agencies

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ST. THOMAS -- Governor Kenneth Mapp surprisingly took a jab at the three top U.S. ratings agencies on talk radio on Tuesday, revealing to Virgin Islanders that his administration has ended its relationship with the firms -- among them Standard and Poor's, Fitch and Moody's -- while sending a clear message that his administration no longer wanted to hear from them.

"I'm not taking on the issues of the rating agencies, they will not pretty much have more to write about the territory. We've severed our ties with them; there's no need," Mr. Mapp said on WSTA 1340 AM. "We don't have market access, so it makes very little sense for the rating agencies to come telling you every other month you can't borrow no money."

Mr. Mapp's sidelining of the ratings agencies represents the first such move, at least in public, by his administration. Not too long ago, the governor pointed to Fitch's decision to maintain a negative watch on the territory's bonds in July, pointing out that the action was not a downgrade. In fact, the governor said Fitch's decision to maintain the negative watch was a good sign. One month later, Fitch downgraded the territory's bonds further into junk status and issued a negative outlook. Its downgrade was followed by that of S&P, which also placed a negative outlook on the bonds.

Mr. Mapp said the territory would no longer rely on the capital market to bridge its annual structural deficit, which averages over $100 million. Instead, austerity measures will have to be implemented, he said, if the territory is to survive.

"The market is very clear and concise in its message to the people of the Virgin Islands and to the government of the Virgin Islands: Don't tell me, show me. Don't speak to me about fiscal balance, show me that you can attain fiscal balance, so that's what we will do," Mr. Mapp said. The governor likened the situation to one's credit score, noting that if it's at or below 600, the chances of getting a loan become slim. "If the government's credit score at this point is at 600, well we don't need you to keep telling us that," Mr. Mapp said, pointing his fighting words to the ratings agencies.

Yet, even as the territory remains locked out of the bond market, the governor said Virgin Islanders should be proud because the government has yet to default on its loans, highlighting that the Government of the Virgin Islands began borrowing in the late 1970s. "We have never been late on a payment, and we have never missed a payment," the governor said. Mr. Mapp also made known that come September, the government will be making its semi-annual payment on all of its debt obligations. These obligations, he revealed, are not for 2018, because those have been already paid, but for 2019.

But while the governor is correct that the territory has never defaulted and has added protections for bondholders, the ratings agencies contend that although the USVI through legislation has placed liens on its bonds — which means even if the territory were to file for bankruptcy, bondholders would ostensibly be paid before the territory could satisfy even essential needs — the new mechanism has not been tested in a stress scenario.

For example, if the territory were to arrive at a point of such financial distress that it had to choose between paying public servants — among them teachers, firefighters, police officers, and others — and its bondholders, who would the government choose to pay?

Puerto Rico on many occasions chose to pay its people. The commonwealth of over 3 million now has an oversight board, dubbed Puerto Rico Oversight Management and Economic Stability Act (PROMESA), which was enacted by Congress in 2016. The law shelters Puerto Rico from creditor lawsuits while it seeks to reduce its debt as its financial crisis compounds. Creditors believe the USVI would receive the same federal protection as its neighbor — both U.S. territories — if placed in a similar position.

“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,” said ratings firm Moody’s in January.