

The Virgin Islands Consortium

'Why Did The Federal Government Put The Territory In Such A Perilous Position'? Asks Senate President Myron Jackson

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Ernice Gilbert **December 01, 2017**



It's a lose-lose situation, Senate President Myron Jackson believes, referring to a \$500 million community disaster loan being offered by the federal government that requires the local government to take a careless action: Make repaying the federal loan priority over the local government's current bondholders, a move that could be both illegal and damaging to the territory.

"Why did the federal government put the territory in such a perilous position? That's the question," Mr. Jackson told The Consortium this morning. "There must be a rhyme or

reason," he said.

The measure will be taken up today during the continuation of a Senate session that started on Thursday, where senators, after hearing from Dept. of Finance Commissioner and Public Finance Authority Executive Director, Valdamier Collens, and the government's bond counsel, will vote up or down, Mr. Jackson said. Asked whether he believed the measure would pass, Mr. Jackson said the bill's fate will be dependent on the answers given by Mr. Collens and the government's bond counsel. The responses, he said, must be satisfactory to lawmakers, who will then make their own decisions.

Yet, Mr. Jackson said he recognizes the difficult position that the territory has been placed in, and described today's decision by lawmakers as do or die. Either that or come up with a better alternative, Mr. Jackson said.

"At the end of the day, you have to put bread on the table; this is the critical hour," Mr. Jackson said, even as he held to his belief that the federal government had dug a trench for the USVI.

The negative possibilities following a favorable vote are plenty and could carry immense consequences. Will the bondholders sue? Just last year, the VI government passed a measure placing a lien on the territory's Matching Fund Revenue (MFR) bonds to ascertain that bondholders are paid first -- no matter what financial constraints the U.S. Virgin Islands may face. What will the bond market think of the government relative to keeping its covenants? A favorable vote may lead to a confirmation by bondholders -- as have been the recent opinion of the major U.S. ratings firms -- that the Government of the Virgin Islands, once placed in a difficult financial position, could renege on its obligations.

"The government has pledged and assigned matching fund revenues to the trustee for the benefit of bondholders, establishing a security interest in the revenues. The statutes are written to create a statutory lien on the revenues," [Moody's said in January](#). "We note, however, that 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."

While approval of the federal disaster loan with the priority payment stipulation would not necessarily mean the G.V.I. would cease making payments to its current debtors, it would convey that payment to the federal government would take precedence over the current debtors -- and that, in the long run, could spell trouble for bondholders if funds become limited.

A Consortium article [published last week](#) concentrated on the sudden volatility that the MFR bonds could face, if reductions in taxes that are included in the U.S. Senate's version of the Republicans' \$1.5 trillion tax cut measure, survives the House and is signed into law.

Every year, over \$200 million is in rum taxes from Captain Morgan Distillery (Diageo) and Cruzan Rum Distillery is remitted to the G.V.I. The majority of the funds, however, never arrive in the coffers of the local government. Instead, the funds are transferred directly to the bondholders, leaving the territory with a fraction of the total sum.

Spirits are currently taxed at \$13.50 per gallon. The U.S. Senate proposal calls for lowering it to \$2.70 per gallon for the first 100,000 gallons produced or imported by the industry. The tax rate would go up to \$13.34 per gallon for anything between 100,000 gallons and 22,130,000 gallons. Anything larger than that would be taxed at \$13.50 per gallon.

While it is unclear how much the USVI would lose if the law were to pass with the Senate line item, it puts on unstable ground the USVI's most dependable source of income to pay bondholders. And with the federal government now seeking priority payment over current bondholders, the possibility of the government being unable to meet its covenants, though it has never occurred in the past, becomes a real possibility.

"I would really wish there would be some engagement to ask the federal government why the Virgin Islands was put in such a precarious arrangement," Mr. Jackson said. "We did not cause global warming," he later added.

But if the territory refuses to approve the measure, the local government's accounts payable will continue to grow with no clear way of how to keep the government operational, hence Mr. Jackson's query: What's behind the federal government's insistence on receiving priority payments over the G.V.I.'s current bondholders, knowing the dangers for the territory of such a demand?