

The Virgin Islands Consortium

Moody's Downgrades USVI Bonds Further; Says Government May Need To Restructure Debt

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Moody's, one of three top U.S. ratings firms, on January 31 [downgraded](#) the U.S. Virgin Islands' already junk-status bonds, further diminishing the territory's bond competence in the market, and any hope of the U.S.V.I. being loaned monies to meet its operational needs.

Moody's assigned an Issuer Rating of Caa3, with a negative outlook, to the government of the U.S. Virgin Islands. The Issuer Rating is equivalent to the rating Moody's would assign to general obligation debt of the government. It serves as a reference point for the ratings on the territory's special tax and enterprise revenue debt, the firm said. A Caa3 rating is judged to be of poor standing and is subject to very high credit risk.

Moody's also lowered the rating on the territory's Senior Lien Matching Fund Revenue Bond to Caa2 from Caa1. Caa2 is a notch lower than Caa3, but it is still judged to be of poor standing and subject to very high credit risk.

Other USVI bonds that Moody's downgraded include: Subordinate Lien Matching Fund Revenue Bonds to Caa3 from Caa1; and its third lien Matching Fund Revenue Bonds, Subordinated Indenture (Diageo) and Matching Fund Revenue Bonds, Subordinated Indenture (Cruzan) to Caa3 from Caa2.

The outlook on all four liens of matching fund revenue bonds is negative, Moody's said.

While the territory's credit standing continues to be hammered by the major ratings firms, Governor Mapp seemed unbothered. "As you know, we terminated all of our relationships with the rating agencies because I'm not going to pay you to tell me I ain't doing so well; I know I ain't doing so well. Only a doctor you pay to say you ain't doing well, right? Because you want to get better," the [governor said](#) during his Wednesday press briefing at Government House on St. Croix.

Moody's said the Issuer Rating of Caa3 reflects the territory's extremely weak economic, financial and liquidity condition, which has been made worse by the effects of Hurricanes Irma and Maria. It added that while assistance from the federal government in response to the hurricanes has provided some near-term relief, the ratings agency believes the severity of the territory's fundamental fiscal and cash challenges, combined with the pending insolvency of the territory's government employees' retirement system, make a debt restructuring highly likely.

The Caa2 and Caa3 on the four liens of matching fund revenue bonds ratings reflect Moody's expectation that the matching fund bonds will inevitably be included in any debt restructuring, the firm said. The one notch distinction between the rating on the senior lien matching fund bonds and the Issuer Rating reflects structural features currently in place for the matching fund bonds which provide some protections to bondholders in the short term, but which are unlikely to survive a restructuring, Moody's said. The firm acknowledged that debt service is funded one year in advance, with matching fund revenues currently paid directly to the bond trustee by the U.S. Treasury. This mechanism, however, has not been tested in a stress situation in which the government attempts to divert pledged revenue for general government purposes, Moody's said.

The firm gave a negative ratings outlook, which it said reflects the severe fiscal challenges facing the government, the possibility that its liquidity and general credit profile could continue to deteriorate, and the high likelihood that the government may be forced to restructure its debt to address its financial problems.

If the territory's ratings are to be upgraded, the following factors must be in place, Moody's said:

- Restoration and maintenance of structural budget balance by the primary government.
- Adoption of a credible plan to address the territory's extremely large unfunded pension liability.

And further downgrades could come if the following happens:

- Default on government debt and/or initiation of a debt restructuring.
- Further erosion of the government's financial position and liquidity.
- Decline in matching fund revenues and debt service coverage due to reduction in rum shipments by the two distilleries.

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