

The Virgin Islands Consortium

In Question And Answer Session On Government Finances, GVI Answers Some, Dodges Others

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In a question and answer session conducted by Capital Markets Advisory, LLC, a brokerage firm offering portfolio management, financial planning, and advisory services, officials from the Department of Finance did their best to provide responses that painted the brightest picture for the territory's financial outlook, while dodging other questions -- including a query regarding the territory's total debt, which at last count in August 2017 was upwards of \$2 billion.

The government also answered some questions while giving little context, including the matter regarding funding the government for the rest of fiscal year 2018. The government said funding for the remainder of fiscal year 2018 would be provided through a federal

community disaster loan (C.D.L.) of \$296 million. What it did not say was that after receiving a first drawdown of \$85 million in December, the U.S. Treasury refused to make additional funds available, citing the government's low projection in future revenues. (Read more [here](#).)

Below, find the complete Q&A, as provided to The Consortium.

1) There have reports that VI PFA was not making their daily set asides of gross receipts taxes in anticipation of debt service payment dates. Could you speak to those reports?

These reports are incorrect. In accordance with the Government of the Virgin Islands (the "Government") contractual obligations, all monthly payments ("the "Monthly Transfer Requirements") continue to be made on a timely basis. This information has been confirmed with the Trustee.

The Government has a lock-box security structure for the payment of all USVI Gross Receipts Taxes ("GRT") Bonds. There is a Special Escrow Agreement with The Bank of New York Mellon Trust Company, N.A., to provide for the daily deposit of all GRT Collections by the Government to the Special Escrow Account, held by the Trustee and maintained by FirstBank Puerto Rico, as the Collecting Agent. GRT Collections include all payments of GRT, together with all fines, interest, penalties and other charges assessed or otherwise payable.

The Special Escrow Agreement provides for the daily deposit of all GRT collected on the preceding Business Day, on behalf of the Government (subject to the first \$250,000 of GRT to satisfy the Required Annual Moderate Income Housing Fund Deposit). Only after satisfaction of the Monthly Transfer Requirement are excess GRT collections for a given calendar month transferred to the Government for deposit into the USVI General Fund to be used for any lawful purpose.

2) What is the most recent estimate of the Government's General Fund deficit, following receipt of federal CDL's?

At this time, the Government is unable to provide its deficit position with certainty.

1. How does the Government expect to cover the remaining fiscal year 2018 deficit without market access?

The \$296 million Community Disaster Loan ("CDL") approved for the USVI by Congress in 2017 is expected to provide sufficient funding to cover the shortfall in the Government's operating revenues during FY 2018.

1. Are there certain expenditures that can be deferred? Layoffs? Has there been any potential for additional federal funds?

There are certain expenditures that can be deferred and layoffs must always be considered. However, it is not currently anticipated that layoffs will occur, particularly, in light of the impact of the storms on private sector employment. Government layoffs could further depress the economy. In addition to the CDL, the federal government will be providing the Government with aid for infrastructure reconstruction which is anticipated to

stimulate economic activity and revenues.

3) I have seen reports that the VI Government expects to provide the federal government with pari lien with senior matching fund bondholders, is there sufficient capacity under the additional bonds test to secure the full \$250mn the Government is expected to receive?

The Government issued an \$85 million promissory note in January 2018 to the federal government as its initial borrowing under the up to \$296 million CDL approved by Congress in 2017. This \$85 million promissory note was issued as a general obligation of the USVI. The Government issued a second loan of \$36 million in April 2018, also as a general obligation of the Government. There is capacity to issue up to \$175 million on a subordinate lien basis under the Government's Matching Fund Revenue Indenture. No Matching Fund Revenue ("MFR") Bonds can be issued without full compliance with the requirements for issuance of Additional Bonds, including approval of the rum companies.

4) While coverage on Matching Fund Bonds remains strong even through the third liens, in the event revenues are insufficient to meet the required subsidies to rum providers, can the whole structure be comprised through a termination of the agreement with rum producers?

Termination of the contracts is never an option since all MFR bonds are secured by cover over revenues generated by the rum companies. Under the MFR Indentures and the contracts with the rum companies, debt service on senior, subordinate and third lien MFR bonds are paid first. Only after satisfaction of all obligations to bondholders, are funds available to be paid to the Government and then to the rum companies. Under each contract with the rum companies, in the event there are insufficient funds to pay the rum companies, the deficiency is carried forward and payable in future years.

5) What is the total dollar amount of the subsidy payments and is that something you are able to provide or publicly disclosed?

Based on the FY 2018 internal revenue matching fund advance to the Government, the following amounts were the portions for the rum companies:

- Cruzan: \$41,212,325
- Diageo: \$53,781,750

6) Does the Government have any plan to address the significantly underfunded pension system?

The Government is actively exploring options to address the underfunded pension system. No final solution has yet been identified but it continues to be a high priority of the Government.

7) Is there political will on the Island or in Congress to provide legislation similar to that of PROMESA in Puerto Rico?

There is no plan or appetite for the USVI to implement legislation similar to Puerto Rico's PROMESA.

