The Virgin Islands Consortium

Bryan Announces Legislation to Create 'Matching Fund Securities Act', Whose Aim is to Refinance Government Debt, Provide Funding Source for GERS

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Governor Albert Bryan on Tuesday announced the Matching Fund Securitization Act, which the administration says marks the territory's re-entry into the bond market for the first time in 11 years and can potentially create a revenue stream of $85 million for each of the next three years by reducing the territory’s annual debt service payment. Currently a bill, the measure aims to significantly increase cash flow and create a vehicle for the government’s future bonding needs, according to the governor.

“In plain language, we’re refinancing the existing debt to make monies available now. We are not using a penny extra,” Mr. Bryan said. “To be honest, this financial transaction is complicated, and it comes with a very tight time frame; however, it presents an opportunity that is too critical to overlook.” See the bill here, and letter to Senate President Novelle Francis here.

The governor has called the Legislature into Special Session to take action on his proposed legislation on Tuesday, August 18.

According to Gov't House, the transaction would achieve four important benefits:

- It provides the Virgin Islands with access to the bond market
- It reduces the overall interest rate on the current debts and provides $106 million in present value savings
- It reduces the Territory’s annual debt service payment
- It creates a potential revenue stream for cash flow of $85 million annually to the Territory for the first three years alone

Mr. Bryan said while shoring up the Government Employees’ Retirement System remains a priority for the use of the funds, there are several potential uses and needs for the funds that will become available because of the refinancing.

“With this new revenue we can create a closely monitored revolving fund that will help us to get our projects moving faster,” he said. “We also still owe many of our employees and retirees' money in retroactive pay and 8 percent. We have not forgotten. Ultimately the Legislature will have the purview to decide how this money is spent, but we must insist that the GERS be our utmost priority.”

Mr. Bryan said the securitization of the Matching Fund Receipts is not an uncommon practice in the marketplace and has been used by other jurisdictions with great success.

“Under current market conditions, the Virgin Islands Public Finance Authority is not able to restructure the outstanding matching fund bonds with a more traditional refunding bond structure and could not achieve the debt service savings that are expected to be achieved by this transaction,” Mr. Bryan wrote in his transmittal letter to the Senate president.

The governor said his proposed securitization measure is expected to reduce the overall debt service payments as soon as October 1, 2020, and approval of the measure by August 19, 2020, is necessary to complete the Securitization transaction before the next debt service due date.

Asked by the Consortium whether the administration had secured a lender, Mr. Bryan said no. He said the administration had not even considered firms that would be willing to refinance the debt. However, with Mr. Bryan calling for immediate action on the measure, citing a small window for success, at least two political observers told the Consortium it would be surprising if the administration had not held talks with interested parties.

The governor said contrary to Consortium's reporting earlier today, the interest rate of the refinancing would be fixed. However, he added, "The interest remains the same but towards the last 10 years the payments do escalate incrementally until it's paid off in the final and tenth year."

“We have an opportunity now to chart a new course for our territory,” Mr. Bryan said. “We have opportunities to bring closer to resolution many of the issues confronting our community.”