

The Virgin Islands Consortium

VI Bonds Said To Rally As Territory's Economy Improves

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As the U.S. Virgin Islands economy continues to improve, propelled by the boom in construction driven by hurricane-related rebuild work, and the reopening of the oil refinery on St. Croix, the price of some of the territory's bonds -- still rated as junk by the top U.S. ratings firms -- has more than doubled since the end of last year, a positive sign that means growth in the local economy is on the rise.

According to [Electronic Municipal Marketplace Access](#) (EMMA), a website funded and operated by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization charged by Congress with promoting a fair and efficient municipal securities market, on Dec. 28, 2017 a customer bought \$2 million of Virgin Islands gross receipts

tax bonds maturing in 2039 at 44 cents on the dollar. On Thursday, a customer bought \$1 million of the bonds at 95 cents on the dollar -- representing an increase of over 100 percent.

The rise of the territory's bond price is "a reflection of increased investor confidence in the Virgin Islands," said Richard Tortora, president of Capital Markets Advisors. Capital Markets is the municipal advisor to the U.S. territory.

The two Category 5 hurricanes that hit the Virgin Islands in late summer 2017 were factors in the slip of its bond prices later in the year, he said. But the government made full bond payments on Oct. 1, 2017, April 1, and this past Oct. 1.

Local lawmakers Kurt Vialet, a Democrat who chairs the Senate Committee on Finance, and Novelle Francis, another Democrat who chairs the Senate Committee on Rules and Judiciary, said in separate interviews on The Consortium that the territory's economy had seen drastic improvements. Mr. Vialet, who oversaw the budget hearings as chair of the Finance Committee, said the structural deficit for operations of the government would be satisfied in the Fiscal Year 2019 budget.

The news was first reported in [Bond Buyer](#), an independent, respected subscription-based information resource serving the entire municipal finance community.

The Mapp administration [has cut ties](#) with the three top U.S. rating agencies, and Mr. Mapp recently reiterated in a Consortium interview that he had no plans of revisiting his decision. Even so, Moody's continues to cover the local government, and recently expressed skepticism that the USVI's bonds would continue to improve.

In January, Moody's downgraded its rating on the matching funds (rum tax) bonds to Caa3 and said there was a "high likelihood" of a government default on the bonds. When Moody's was contacted in July, its analyst said that the opening of the oil refinery was likely to have only a minimal impact on the territory's finances.

Meanwhile, on Friday the Virgin Islands Water and Power Authority posted a financial notice to EMMA stating that the Public Service Commission (PSC) had approved a roughly 4 cents per kWh increase [from July through December](#) of this year. The authority said it planned to ask the PSC for surcharges and temporary rate increases to support various expenses. Additionally, the authority expects to "submit a full base rate case" to the PSC in early 2019.

Yet even with Moody's doubts about the USVI's growing financial prospects, the news from EMMA was welcomed by the local government as a sign of Governor Kenneth Mapp's efforts.

The Fiscal Year 2019 budget projects \$1.311 billion in revenues, compared with \$1.278 billion in the fiscal 2018 budget, according to Julio Rhymer, director of the Virgin Islands Office of Management and Budget.

The government has already drawn \$215 million of a federal Community Disaster Loan (CDL) approved after the hurricanes. It may or may not draw on the remaining \$81 million available, Mr. Rhymer said, according to Bond Buyer.

The CDL, Federal Emergency Management Agency, Community Development Block Grant, and other federal aid after the hurricanes are not included in the island's official budget, Mr. Rhymer said.

“As a result of economic activity in the U.S .Virgin Islands during the past six months we are expecting the largest gross receipts tax collection in years at \$191.3 million, \$452.9 million in income taxes and \$63 million in real property taxes,” said Department of Finance Commissioner Valdamier Collens.

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