

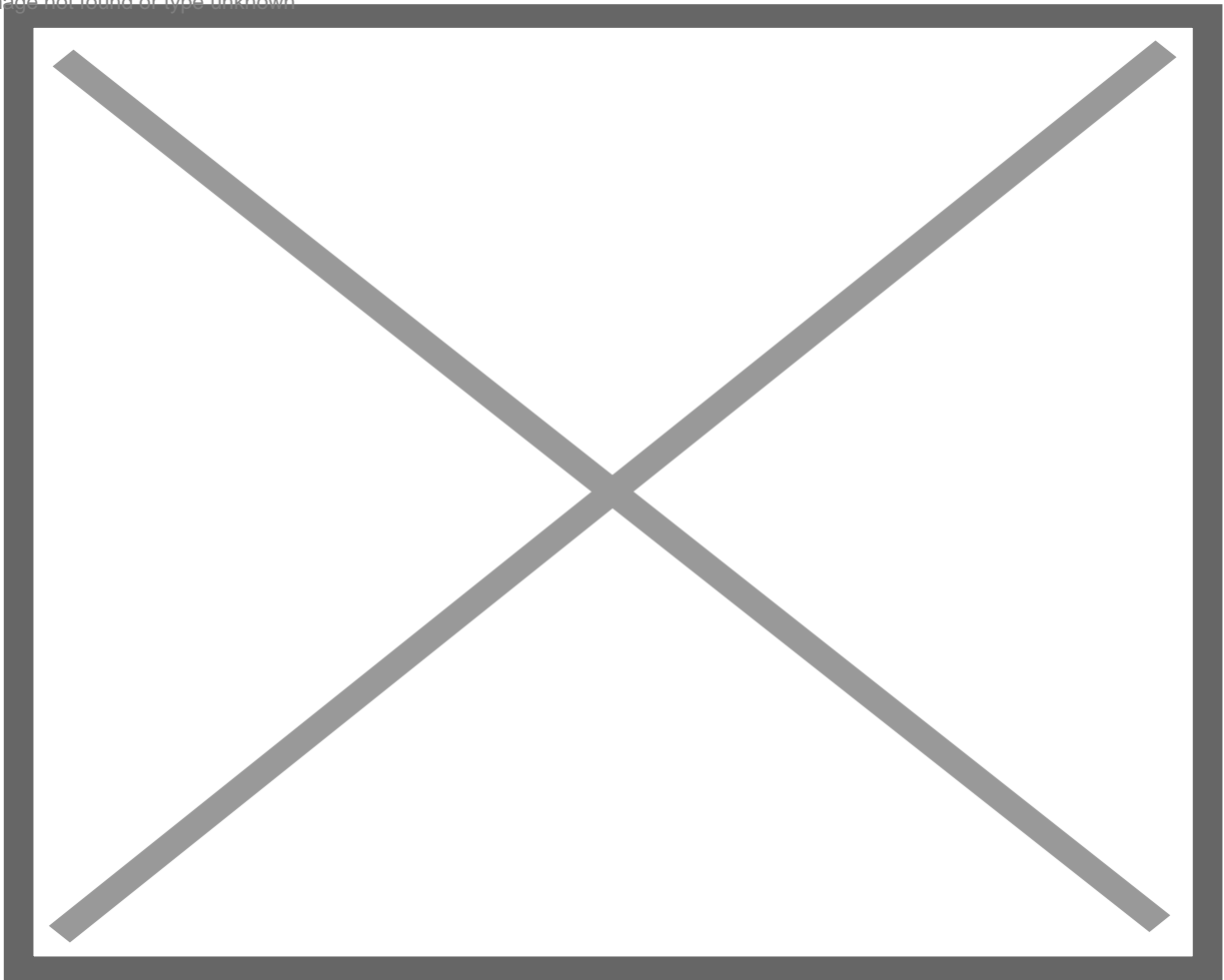
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In Deal Set to Affect Generations of Virgin Islanders, Fate of Bill Giving Up Territory's Decades-Old Funding Reserve Will Be Determined Friday

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Money Crisis By. VI CONSORTIUM/ALAMY

What was first sold as a bill that would utilize a special purpose vehicle unspoiled by the V.I. government's weak credit rating to refinance the territory's debt and realize massive savings — \$85 million per year for the next three years to be exact (\$255 million over three years) — was unmasked on Thursday to be a measure that seeks to use roughly \$150 million in reserve funds that the government has been building for decades as a fail-safe to continue paying the territory's debts if calamity were to strike.

Simply put, Governor Bryan's plan — widely promoted as a means to find new monies to meet a number of obligations, most pointedly undergirding the Gov't Employees' Retirement System by refinancing the Internal Revenue Matching Fund (IRMF) debt service — does not create \$255 million over the next three years. Instead, the measure dissolves the fail-safe reserve that currently holds \$150 million, and includes those funds as part of the \$255 million.

"When you put out that the [revenues generated through the refinancing] will be \$85 million per year but you fail to tell the public that a portion of that is monies that belong to the Government of the Virgin Islands, then your statement isn't factual and you're giving information that you cannot in any way verify," Senator Kurt Vialet said during a Committee on Finance Hearing Thursday, where the bill was heard before being sent to the full body for action in a session. The session was recessed for Friday, where final action will be taken.

The refinancing only creates a projected \$105 million over the course of three years, or \$35 million every year for the next three years while ending a setup that has served the government well in boosting the confidence of bondholders in the government's ability to meet its obligations if a natural or man-made disaster, for example, resulted in the halting of rum production in the USVI.

The Bryan administration said some of the money will be used to bolster G.E.R.S., though the administration hasn't said how much. However, during a G.E.R.S. [board meeting on Thursday](#), the pension system's actuary, Segal Consulting, said the \$255 million that the Bryan administration says will be made available over the next three years, would only add two years of life to G.E.R.S.

The bill, expected to be signed into law by Mr. Bryan, refinances the territory's most valuable asset: IRMF, also known as rum cover-over funds. The USVI receives roughly \$250 million from the U.S. Treasury annually in taxes paid on rum made in the USVI and sold in the U.S. The funds are used to pay a number of the territory's debts, most of which go directly to the bondholders while the remaining funds are then remitted to the local government. At times, the USVI receives roughly \$30 million when all obligations are made whole.

The bill creates a special purpose vehicle, called in short SPV, untied from the government to facilitate a credit rating that would pave the way for interest rates as low as an estimated 3.5 percent. Current interest rate levels for IRMF bonds are between 5.8 percent and 6.5 percent, according to Nathan Simmonds, director of finance and administration at the Public Finance Authority.

But following the three years of modest savings of \$35 million, the bill starts to balloon after the 10-year mark where the territory starts to see deficits instead of savings. Mr. Bryan had denied that interest rates would increase when questioned by the Consortium following his announcement of the bill, and even said the publication had been given wrong information. During a Tuesday Senate session, however, testifiers provided a chart showing that the loan balloons overtime.

The territory would realize a net change in cashflow of negative \$5 million in the 11th year; another projected \$13 million in the 12th year, and in the 15th year it climbs to about \$60 million in negative cashflow. The agreement lasts for 20 years.

"As the deal is currently structured, we envision dissavings starting in year 11," said Capital Markets Advisors President Richard Tortora. Capital Market Advisors serves as the financial advisor to the V.I. Public Finance Authority. Mr. Tortora said through the agreement, the SPV would reserve the right to refinance the bonds, however he said refinancing would be dependent

on market conditions.

In defense of dissolving the territory's lockbox that currently holds \$150 million, Bryan administration officials contended that the reserve funding would no longer be needed under the refinanced plan as the plan is projected to produce high returns because of the expected low interest rates. This was a gamble that lawmakers who plan to vote against the measure was not willing to take.

"We have been using a formula that has been working for several years and now we're saying let's try something new. I don't know what new looks like, but I will tell you this much: I'm not willing to gamble here today and basically in the next 15 to 20 years put our children and even my grandchildren in a harder situation when it comes to the Virgin Islands government," said Senator Javan James.

"I don't know about my colleagues, but the body has a level of respect that should be demanded, and I am tired of people coming before us with insufficient information," said Senator Janelle Sarauw. "At some point we have to demand excellence."

She added, "I'm not willing to play Russian roulette with one of our greatest revenue streams. I am not in the business of being excited for three years upfront cash, and twenty years inaccessibility. I'm not okay with that."

Senator Kurt Violet said, "First, there's nothing in this bill that speaks to retirement. Nothing. Not one word... So you don't know what you're passing it for until that period comes and you have the vote of every individual.

"Second, this bill dissolves the Debt Service Reserve Fund. Our lockbox, gone. The monies that we have in escrow that could pay our debt service for one year in the event that anything happens to the rum companies, gone. They're cashing it in. We had to probe and pull in private meetings to find out that the [\$150 million] in the Debt Service Reserve Fund is what they're considering as savings in the \$255 million. The overall savings is only \$52 million in 20 years. You're willing to giveaway the Matching Fund for \$52 million in 20 years? The backend from year 10 to 20 is exorbitant; it increases dramatically. [Their] answer is you'll go and refinance, [but] how can you say go and refinance when you're saying we're refinancing now at the best rates ever? You're going to refinance at higher rates? Totally impossible.

"Why are they so reluctant to share information that we have to pull and probe, and we're supposed to put all this trust, but we have to consistently ask the same questions [for three days] to find out the Debt Service Reserve" was being dissolved and included as savings," Mr. Violet continued.

"Why are they stacking this future bond payment the way they are doing it? They're stacking it that way because they want an influx of money now and they don't care how it's going to impact year 10, 11, 12, 13... Those individuals who are in this body in those years are going to have to pay for it.

"I am going to be comfortable because my vote is no," Mr. Violet concluded.

The bill is expected to pass. Some senators who voted yes, including Donna Frett-Gregory and Marvin Blyden, contended that their Yes vote will be cast only to give the governor a chance to go to market. "My Yes vote today is to allow the governor to go out and do his work. But if the financials and the cashflows do not come back in favor of the Virgin Islands and the future of the

Virgin Islands, in my good conscience I'm going to have to walk away from this," she said.

The senators moved an amendment that calls for the governor's team to return to the Legislature after going to market to get final ratification. The amendment, which was forwarded last night to the Senate, had mistakes, Ms. Frett-Gregory said. Senators are expecting to receive a revised amendment from Gov't House today.

"Despite all of the hardships we've had financially we've never missed a debt payment and that's because we've set aside [the reserve funds]. And we don't know what will happen with the rum companies in the future so we have to secure our reserves. But we want to see; I'm giving them a chance to go to market. I'm giving him a chance to do his job. He's not going to say I'm standing in his way," Ms. Frett-Gregory said.

Senators who intend to vote Yes include:

- Allison DeGazon
- Stedmann Hodge, Jr.
- Novelle Francis
- Donna Frett-Gregory
- Alicia Barnes
- Myron Jackson
- Marvin Blyden
- Athneil Thomas

Senators who intend to vote against the measure include:

- Kurt Violet
- Javan James
- Janelle Sarauw
- Dwayne DeGraff
- Oakland Benta

Senators Kenneth Gittens and Steven D. Payne, Sr. were absent. Mr. Gittens is [ill with Covid-19](#). The Consortium could not determine at time of writing Mr. Payne's reason for being absent. This story will be updated as soon as we learn why.

In support of the bill, Ms. DeGazon said, "We have to be brave enough to make tough decisions."

She later added, "I believe in giving time, I believe in creating the opportunities for solutions. We cannot shut the door without knowing all the facts."

Mr. Francis said, "We can't continue to kick the can down the road, it's unfair."