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# Senators Approve Bryan's Refinancing Deal With Amendment That Gives Legislature Final Say and Forces the Administration Back to the Senate

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USD/Market By. VI CONSORTIUM

The expected outcome of Friday's consequential vote saw 8 senators supporting a measure sent to the Senate by Governor Albert Bryan that will use \$150 million in reserve funding while ceding control of the Internal Revenue Matching Fund (rum cover-over funds), in pursuit of lower interest rates in a refinancing deal the administration has said will save the government millions of dollars.

Five senators voted against the measure, among them Senators Janelle Sarauw, Kurt Vialet, Dwayne DeGraff, Javan James and Oakland Benta. The eight senators who supported the measure

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

The supporting lawmakers took great pains to explain why they backed the measure, stressing that the bill approved on Friday includes an amendment that gives the Senate the authority to review and ratify or fail a final version of the bill following the Bryan administration's shopping of the bond market to find a buyer of the plan.

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) — the measure was unmasked Thursday to be a bill 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.

Dissenting lawmakers held their ground, contending that the bill's very foundation was a dangerous understructure on which to build upon.

"When you have a deal of this magnitude and you hire underwriters and they come to you and they say that you have a \$255 million savings in the first three years, means that they have already ran the numbers, and which clearly means that they have just failed to disclose the pertinent information that they have. You cannot know what you're going to be able to realize in the first three years unless you have ran the numbers," said Mr. Viallet, pushing back against the notion that passing the measure would allow the administration to get numbers to provide to the Senate, as stated by Ms. DeGazon.

Holding up a document, Mr. Viallet added, "The numbers are here, they just failed to be honest and to disclose exactly what's happening. And the numbers we have seen clearly say they're taking all the savings, putting it on the frontend for three years, and then on the backend this government of the Virgin Islands — from 2033, 2034, 2035, 2036 — is going to lose \$50 million to \$60 million. That's what the numbers say. The numbers say that there's a net saving of \$52.5 million. Tell me how is that possible when you're already cashing out [\$150 million] that belong to the people of the Virgin Islands, but it's only a net saving of \$52 million.

Mr. Viallet said along with cashing out the Debt Service Reserve Fund, which Nathan Simmonds, director of finance and administration at the V.I. Public Finance Authority said was roughly \$150 million tied to the IRMF, the principal and interest rates will also be reduced as part of the refinancing. "But yet the savings are less than what they're cashing out," Mr. Viallet said.

He added, "They have not been forthcoming with the numbers. They have not told the truth. Anybody that is comfortable with individuals who come before you and not tell the truth consistently and you've got to probe and prod, something is wrong. If it's a good deal be honest and let us know exactly what numbers we're dealing with."

Mr. Viallet also spoke of the importance of the Debt Service Reserve Fund. In total it has over \$250 million, with the IRMF holding the largest pie of \$150 million. The fund for decades has

served as the territory's fail-safe mechanism that provides funding to pay for debt service for up to a year if a calamity were to affect the USVI. The fund has also served to bolster bondholders' confidence in the territory's ability to make good on its covenants.

The Bryan deal, in its current form, dissolves the fund.

"When they return to this body with that agreement it better include the Debt Service Reserve, because I want to see which senator is going to vote to dissolve the Debt Service Reserve," Mr. Violet said. "So they better include that but they don't want to include it because out of the \$255 million that they say [the deal] is saving, [\$150] million is already the people of the Virgin Islands money.

"Do not allow individuals to come with funny math and you fall for it and say, 'oh you're going to give them a chance to bring more information,'" Mr. Violet said.

Senator Janelle Sarauw spoke with the Consortium following Friday's vote, telling the publication that the governor already has the authority to go to the market and have conversations. "My reason for voting No is that no matter how many amendments were made, I don't agree with legislation that's using the Matching Fund revenue, which is money through an Act of Congress given to us. I don't agree with taking that and the Debt Reserve as our means of going to the market to do whatever."

Ms. Sarauw also described the agreement as a balloon mortgage whose cost aggressively escalates after year 10. "The cost is going to balloon at the expense of the territory, and I don't agree with the structure of the proposed bond. So this isn't party affiliation and being an obstructionist. This is about the future financial health of the territory," she said.

Mr. James said, "I will remind the Virgin Islands Government — and I'm speaking of all three branches of Government — that we must live within our means. We must learn to be frugal." He later called for what he said should be a credible plan to help G.E.R.S., stating that while on the campaign trail, candidates all expressed that they had a plan to save the system. The agreement before the body, Mr. James said, couldn't have been that plan because the Bryan administration has said the agreement came as a result of Covid-19.

Mr. Bryan, when announcing the agreement, said good could come out of bad situations, referring to the Covid-19 climate that favors lower interest rates and refinancing possibilities.

Senators who supported the bill said they threw their weight behind the measure because Friday's approval was not the final, and that their vote could change depending on what the administration comes back with.

"Colleagues it is clear that based on the amendments, we have several bites of the apple," Ms. Frett-Gregory said, referring to the amended bill. "We now have the opportunity... to change from upfront savings alone, to securing maximum capacity in the market." Ms. Frett-Gregory was referring to the idea that has come up in the Senate whereby instead of the current deal, the government should take advantage of present market conditions to secure a much larger sum that would see G.E.R.S. receiving an infusion of cash of \$600 million-\$700 million as part of a \$1.7 billion bond.

She added, "We must ensure that what we do today in 2020 is good for our retirees and future generations of Virgin Islanders. It's so important that we ensure that that occurs particularly in this agreement.

"This decision for me will be one of the most important decisions that I would have made serving as a senator in the 33rd Legislature. And when it comes down to the final decision, I will — I want to make it clear — I will vote my conscience.

Ms. DeGazon said, "Let it be known and understood that the Legislature determines how each penny is spent, not the executive branch." She added, "We've been calling for numbers from them, why would we close the door on getting those numbers." It was not clear what numbers Ms. DeGazon was referring to, as the projections of the measure's impact were provided during Thursday's hearing.

Mr. Blyden said, "I just want to make it clear from the beginning to let the people know what we're doing today. We're not passing any deal today. All we're doing here today is giving the executive branch an opportunity to proceed with the process."

"We are not approving a transaction, people of the United States Virgin Islands," said Ms. Barnes. "We are approving a special purpose vehicle that allows the executive branch to go to market utilizing the Matching Fund cover-over monies as a stream to collateralize any bond issuance that we endeavor to get."

It remains to be seen what changes lawmakers will seek if the administration returns with a deal. Some lawmakers are averse to the Internal Revenue Matching Fund being used as collateral for this agreement, yet it's the foundation of Mr. Bryan's plan. Another foundation of the agreement is the dissolving of the government's decades-old Debt Service Reserve, which has \$150 million in IRMF-related funding, and use those funds as part of the revenue that the administration has said would be generated.

Senators Steven Payne and Kenneth Gittens were absent. Mr. Gittens is ill with Covid-19, and Mr. Payne had traveled to the U.S. mainland to spend time with his uncle, who Mr. Payne said was like a father to him and raised him. Mr. Payne's uncle died during that time.