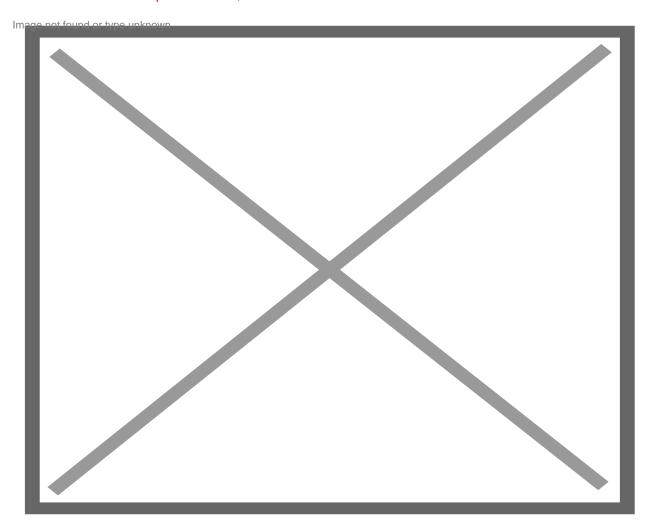
U.S. Treasury Remits \$273 Million to USVI in Rum Cover-Over Payments

Business / Published On September 09, 2020 05:37 PM /

Staff Consortium September 09, 2020



The Trump Administration, through the U.S. Department of the Interior's Office of Insular Affairs, announced today the release \$272,950,000 to the U.S. Virgin Islands in rum tax coverover payments for estimated fiscal year 2021 rum tax collections in the territory.

Under the Revised Organic Act of the Virgin Islands (48 USC Chapter 12 Section 1541), any excise tax collected on USVI manufactured rum imported into the mainland United States is transferred to or "covered-over" to the USVI, said the Trump administration. The USVI government submits an advance estimate of rum excise taxes to the Department of the Interior's Office of Insular Affairs (OIA) on an annual basis so that a payment can be made in September of each fiscal year. Any adjustments necessary are calculated and paid later based upon amounts advanced from rum excise taxes derived from the USVI and actual receipts collected by the

federal government.

The remittance to the USVI comes as the Bryan administration is believed to be shopping the bond market to find a buyer for Mr. Bryan's debt refinancing plan. In simple terms, the plan seeks to refinance the territory's debt through a special purpose vehicle, or a shell entity that would enable the territory to secure a more favorable interest rate, as compared to using the government's junk-bonds credit rating. Mr. Bryan has continued to sell the bill as creating \$85 million in revenue every year for the next three years — for a total of \$255 million — from the refinancing. He left out a critical component of the plan: it uses the territory's Debt Service Reserve Funds as part of the \$85 million in annual revenue, thereby dissolving the Debt Service Reserve Fund of \$150 million tied to the Internal Revenue Matching Fund. Every year the U.S. Treasure remits roughly \$250 million in tax dollars for rum made in the USVI and sold in the U.S. These funds are known as the Internal Revenue Matching Fund, or rum cover-over funds.

So of the \$255 million in revenues in three years, \$150 million, which is more than half, are funds that already belong to the government of the Virgin Islands; and the fund has served as a fail-safe in case calamity were to strike.

Mr. Bryan had a different take on the matter when questioned by the Consortium. "The Debt Reserve Fund cannot be considered as savings," he said at a recent Covid-19 press briefing. "The \$85 million that you're generating is not new revenue. It's revenue that you will be collecting because you have lowered your payment" as part of the refinancing.

Mr. Bryan didn't seem to have an issue with dissolving the fund. "So what you're telling me, the bank gives you back your \$30,000 they're holding for the car and you don't want it? You want your bank to hold your money and not make interest on it? That don't make any sense," he said. He then said his aim is to save the Government Employees' Retirement System. "My point here is not to show how smart I am, my point is to save the G.E.R.S.," the governor said.

While the bill projects savings in the first ten years, it escalates aggressively from year 10 and onward. 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 during a Committee on Finance hearing late August. 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.

"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," said Senator Kurt Vialet during a recent Committee on Finance Hearing.

The Trump administration also remitted \$65,109,936 to Guam for federal income tax advance payments under Section 30 of the Organic Act of Guam for fiscal year 2021.

"The Office of Insular Affairs works closely with the Internal Revenue Service to ensure quick and smooth transfer of these taxes back to the USVI and Guam once available," said U.S. Department of the Interior Assistant Secretary Douglas W. Domenech. "Secretary Bernhardt and I appreciate that these funds will be critical to Guam and the U.S. Virgin Islands as they work to

manage health and economic impacts of the coronavirus pandemic in the territories."

Under Guam's Organic Act, federal income taxes derived from active members of the United States Armed Forces and pensions paid to retired civilian and military employees of the United States who reside on Guam are annually "covered-over" to the Guam Treasury to support the operations, activities, and programs of the local government (48 U.S. Code 1421 Section h).

© Viconsortium 2024