

The Virgin Islands Consortium

USVI Still In 'Extremely Weak Economic, Financial And Liquidity Condition,' Ratings Firm Moody's Says, Warns Pending Collapse Of GERS A Major Concern

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Governor Kenneth Mapp had [severed ties](#) with the U.S. ratings agencies following multiple negative reviews of the territory's bonds. But Governor Albert Bryan, who has said the former governor's decision was harmful to the territory, has been working to rekindle the relationships, with Moody's being one of the first of the top three to review the territory's bonds since Mr. Bryan took office.

Moody's Investors Service said it recently completed a periodic review of the U.S. Virgin Islands' Caa3 issuer rating and the ratings of its four liens of matching fund revenue

bonds, and concluded, for the moment pending a complete assessment, "direction uncertain."

Moody's said the Caa3 rating reflects the territory's extremely weak economic, financial and liquidity condition, which has been made worse by the effects of Hurricanes Irma and Maria. The ratings firm said that while assistance from the federal government in response to the hurricanes has provided some near-term relief, "we believe the severity of the territory's fundamental fiscal and cash challenges, combined with the pending insolvency of the territory's Government Employees' Retirement System, make a debt restructuring highly likely."

Moody's said the latest, periodic review also covered related credits within the territory's debt stack including any special tax, lease, appropriation and moral obligation, intercept program, and pool program ratings.

The matching fund bonds were issued through the Virgin Islands Public Finance Authority. Matching fund bond ratings placed on review are: Senior Lien Bonds Caa2; Subordinate Lien Bonds Caa3; Subordinated Indenture (Diageo) Bonds Caa3, and Subordinated Indenture (Cruzan) Bonds Caa3. This action affects approximately \$1.06 billion in outstanding matching fund debt.

Moody's said the review was conducted through a portfolio review in which it reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), recent developments, and a comparison of the financial and operating profile to similarly rated peers. The review did not involve a rating committee. Since 1 January 2019, Moody's practice has been to issue a press release following each periodic review to announce its completion.

This latest review does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future, Moody's said. Credit ratings and outlook/review status cannot be changed in a portfolio review and hence are not impacted by this announcement, the ratings firm said.

Ratings Rationale

The placement of these ratings on review was prompted by the protracted delay in the release of Virgin Islands government's audited financial statements for the fiscal year ending September 30, 2017, the absence of publicly available unaudited financial statements for fiscal years 2017 and 2018, and the government's extremely weak financial and liquidity condition as indicated by the limited available information, despite some signs of improvement in the economy and tax revenues in recent months, Moody's said.

The matching fund revenue bonds are secured by remittances to the Virgin Islands government from the U.S. government of excise taxes collected on rum produced in the territory and exported to the US. The matching fund revenues are currently paid directly by the U.S. Treasury to the trustee, a setup the VI government has underscored to help boost its standing with the bond market. Moody's, however, contends that this mechanism has not been tested in a stress situation in which the government attempts to divert pledged revenue for general government purposes. In addition, the matching fund

revenue bonds would likely be included in any attempt to restructure the government's debt, Moody's said.

A ratings review "will focus on an assessment of the government's financial condition and the risks it poses to the matching fund revenue bonds, as well as an evaluation of whether the available information is sufficient to maintain these ratings," Moody's said. "If sufficient information is not received over the next 90 days, we will take appropriate rating action, which could include confirmation of the ratings, a change in ratings or outlook or withdrawal of the ratings."

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