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Now is the Right Time for the USVI to Work With the U.S. Treasury on a Historic Debt Refinancing Deal Beneficial to the People

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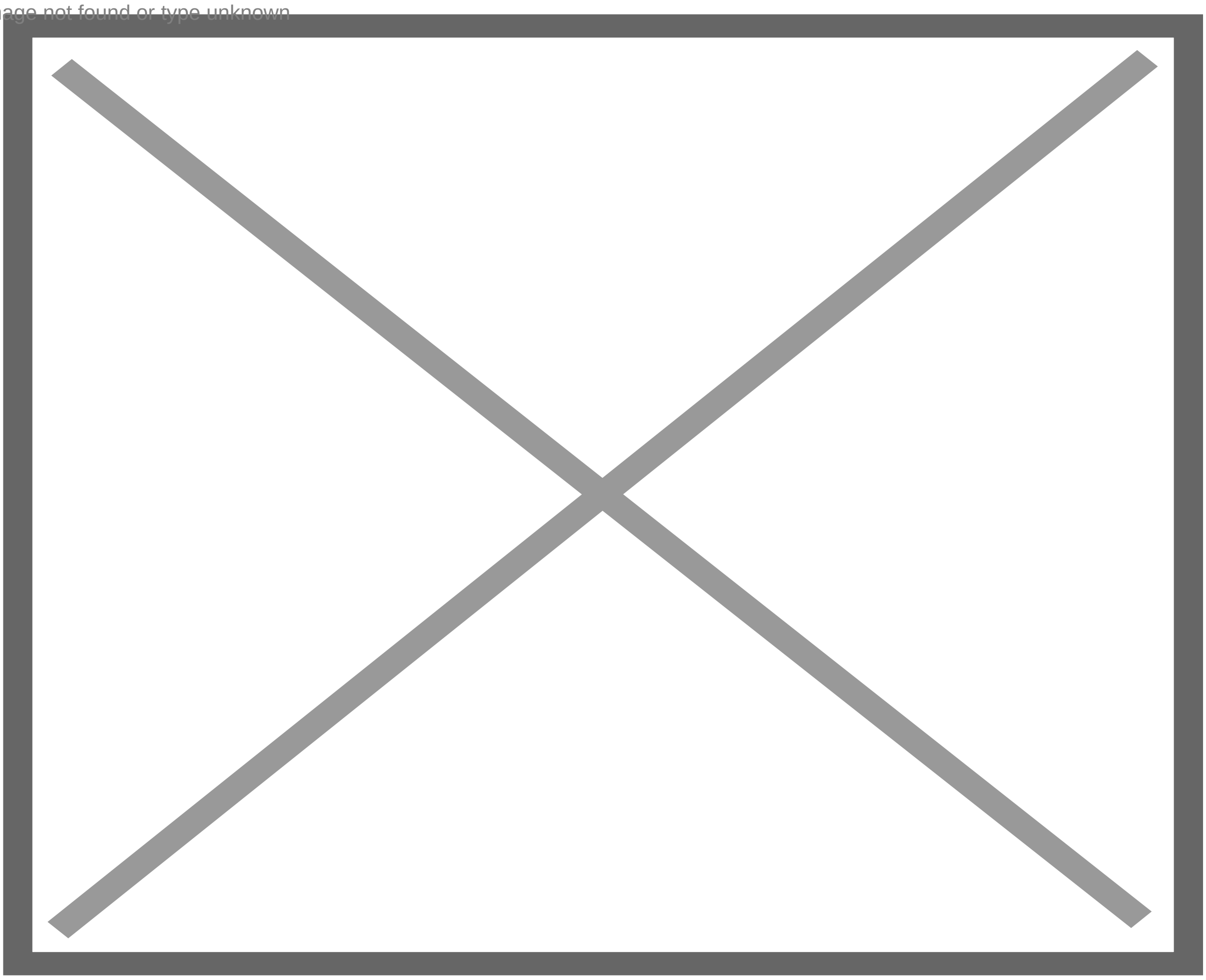

U.S. Dept. of Treasury in Washington, D.C. **By. 123RF/VICONSORTIUM**

Governor Albert Bryan's debt refinancing deal that he pitched to the bond market has turned up empty. The plan sought to refinance debt backed by the territory's Internal Revenue Matching Fund to realize savings of just over $40 million in 20 years. It would have provided $85 million each year in the first three years of the plan, and Mr. Bryan has said the bulk of the funds would be used to undergird the Government Employees' Retirement System.

But the deal was flawed and, worse, dangerous. In fact it has been described as predatory. According to the agreement, in the first three years, the government pays no debt service, but the agreement sees payments escalating from year 10, with the government seeing hundreds of millions of dollars in dissavings thereafter — for a total of $300 million for the agreement's 20-year duration. And along with the dissavings of $300 million, the territory would have paid $1 billion in debt service over the agreement's lifetime.

This deal was simply not favorable.

However, the people of the USVI are an ingenious set, and ideas that are more favorable to the territory abound. For our part at the V.I. Consortium Editorial Board, we see failure of Mr. Bryan's attempt as an opportunity to pursue a more propitious idea.

We believe the USVI should attempt to refinance by working with its longtime partner, U.S. Treasury, for a more favorable deal. There's really nothing to lose.

Here's the plan:

USVI signs over its share of rum revenues to the U.S. Treasury, which is the source of the revenues

The U.S. Treasury is the government arm which collects the taxes for the USVI government — called rum cover-over funds — on rum produced in the territory and sold on the mainland. Instead of remitting the funds to the territory, Treasury would keep the money. The U.S. Treasury would then issue State and Local Government Series (SLGS) to the USVI, which are non-marketable, special purpose Treasury securities specifically for municipalities to use as collateral. Thereafter, the USVI would pledge the SLGS as collateral for a new municipal bond issuance. Currently, the interest rates for an AAA rated municipal bond are as follows: 10-year maturity: 0.85 percent; 20-year maturity: 1.40 percent; and a 30-year maturity municipal bond yields a 1.60 percent interest rate. Now is truly the best time to refinance.

The money from the sale of the new bond would be used to pay off the old bonds — some of which have interest rates as high as 6 percent. The USVI government would save $40 million to $50 million in annual interest expense, adding that much to the USVI general fund every year.

Relative to the Debt Reserve Fund, estimated to be roughly $150 million in the Internal Revenue Matching Fund, the local government could cash it in or keep it in place. That's doable because Treasury has it's own payments that it owes the USVI — the rum cover-over funds — and so it isn't at risk of not getting paid the way a normal lender would be.

Another benefit of a deal with Treasury is that the $13.25 the territory currently receives for each barrel of rum made in the USVI and sold in the U.S., would be locked at least for the duration of the agreement. The remittance has been as low as $10.25 per proof gallon, and there's currently no guarantee that it won't revert back to that amount.

The aforesaid are the easy parts of the plan and there are other details that must be worked out, but they are not insurmountable.

The more difficult part is for the Bryan administration to work its channels and relationships to get the secretary of the Dept. of Interior, David Bernhardt, to help get the deal done. Mr. Bernhardt, once convinced by the local government, would then have to work with the U.S. Secretary of Treasury, Steven Terner Mnuchin, to make the deal possible.

Warren Mosler, a candidate in the 2018 General Election, spoke of a similar plan during an interview with the Consortium's Ernice Gilbert.

If the Bryan administration could pull this off, the deal would be one favorable to the U.S. Virgin Islands, and the partner involved — the U.S. Treasury — already has a longterm relationship with the local government, whose interest would be to see the deal — and by extension the people of the territory — succeed.