Bryan Calls Senate Into Session Dec. 3 to Ratify New Attempt at Refinancing Territory's Debt

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Governor Albert Bryan has called the Senate into session Dec. 3 in a new attempt to approve a debt refinancing plan that the governor has said would be beneficial to the territory. Mr. Bryan pulled the bond sale from the market late September after failing to secure investors. Multiple publications covering the bond market said the failure was due to the deal's capped interest rate of 3.75 percent. At the time, the governor said his administration would continue to seek funding opportunities.

The bill gives Mr. Bryan the authority to enter into a 20-year contract to refinance the territory's Internal Revenue Matching Fund, or rum cover-over funds, in what the administration says will yield a lower interest rate and allow the government to re-enter the bond market. In the first three years, the agreement would see the government receiving $85 million, $150 million of which will be monies from the territory's Debt Service Reserve Fund that was part of a fail-safe system, called a lockbox, that previously could have only been used to pay the territory's obligations if, for example, a calamity were to strike and affect the territory's normal means of meeting its debt obligations.

The new agreement dismantles this structure and uses the funds as part of the $85 million a year in payments to the territory.

Another concern was the ballooning effect of the bill, with some senators in previous hearings describing the contract as predatory. According to the agreement, in the first three years, the government pays no debt service, which explains why the $85 million is possible every year for three years. But the agreement sees payments escalating from year 10, with the government seeing hundreds of millions of dollars in dissavings thereafter. And for an agreement that refinances over $1 billion of the territory's debt, the savings for its lifetime of 20 years amounts to only $44 million.

Under the current setup, the territory would be paying $5 million in debt service payments in 2034, according to Senator Kurt Vialet, chairman of the Committee on Finance. Instead, under the new plan, the USVI would be paying $63 million while seeing dissavings of $58.1 million in the same year. In fact, according to a chart provided by the administration, dissavings in the last ten years of the agreement totals $297 million.

Three people with knowledge of a recent meeting Mr. Bryan held with the 9 lawmakers who supported the agreement in September, said the administration was not in favor of an interest rate cap. During the last session in September where the measure was approved, an amendment was added to the bill by Senator Marvin Blyden that called for the deal to be executed by Sept. 30 or the entire law would be rendered null. It also set the maximum interest rate the government could accept to 3.7 percent. At least two of the people familiar with the meeting said the administration also was not in favor of an execution expiration date.

The Public Finance Authority in September authorized contracts of more than $8 million to pay the underwriters and advisors who were instrumental in crafting the Bryan deal. During a PFA meeting early October, Mr. Bryan said those agreements would remain in place for the latest attempt.

During his Covid-19 press briefing Tuesday, the governor said action is needed because of the looming collapse of the Government Employees' Retirement System, "We can't just stand by and we will not standby and do nothing to avert this disaster," he said.

Mr. Bryan said his administration was initially worried that a Trump loss would result in the end to the historically low interest rates that allowed for favorable borrowing. "As it turns out that scenario has not materialized, thank God, and the market continues to offer extremely attractive interest rates," he said.

The governor added, "After careful research we are convinced that we have a great opportunity now to refund our bonds and generate savings that could go towards rescuing the pension system and completing a lot of other problems that we have here in the Virgin Islands that have been plaguing us."

On interest rates, he said, "We do have an opportunity right now to refund those bonds and get them back at a lower interest rate, and so we can reduce the amount we are paying on our debt service. Not only that but we have a final chance now to pay less because we have a lower interest rate."

The territory currently pays 6 percent on bonds totaling roughly $1 billion.