The Virgin Islands Consortium

Bryan Open to Securing Bond for GERS Through Public Finance Authority, a Significant Development in Negotiations With Senators

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Ernice Gilbert June 17, 2021

Governor Albert Bryan said Tuesday that he was open to securing a bond to help fund the Gov't Employees' Retirement System through the Public Finance Authority (PFA) in lieu of a special purpose vehicle (SPV), which senators who voted against Mr. Bryan's debt refinancing plan last year saw as one of a number of sticking points.

The refinancing plan had sought to create an SPV and give it control of the Internal Revenue Matching Fund in an effort to win a favorable credit rating to shop the bond market — something the local government had been unable to do in the past with its junk-status credit rating. According to administration testifiers at the time, the Bryan plan received a BBB bond rating by the Kroll Bond Rating Agency, though the ratings agency's credibility was later called into question.

Speaking during an hourlong interview with the Consortium, Mr. Bryan said while he was willing to go through the PFA, the public should expect that any funding secured through the authority would command a higher interest rate than if the SPV were to be utilized — and therefore yield less savings.

Mr. Bryan said he along with his team met with senators two weeks ago and that a followup meeting was being organized. "We have a followup meeting that we're trying to setup with them now to find out what they want to do," the governor said. "Every single issue that they asked about we spoke to."

On the SPV, he stated, "They had a concern about the special purpose vehicle, and I sat with them and I told them, listen, if you don't want the special purpose vehicle, we could float the bond on the PFA, but understand that we're going to pay more interest for it because we're not as good in credit as the special purpose vehicle."

The governor added, "People think that I'm tied to the special purpose vehicle in some way; the only real use of that is to get the lower interest rate. Why would you get a 4 percent interest rate if you could get 3 [percent]. Right now Puerto Rico, Guam, Northern Mariana Islands — every other territory has already refinanced all of their money. We're the only ones that didn't do it. What are we waiting for? Why are we paying a 6 percent interest when we could be paying 3 or 4 percent."

Mr. Bryan's willingness to utilize the PFA to secure a credit facility is significant and would help allay the concerns of lawmakers, though other issues would need to be worked out before a final agreement. The matter of G.E.R.S. is the most pressing for the government of the Virgin islands as the pension system. In April, top U.S. ratings firm Moody's said G.E.R.S. would likely collapse in 2023 after depleting assets and be forced to cut retirees' benefits by 50 percent, a move that the firm said is unthinkable politically and instead would be the driving force of a government debt default and restructuring.

Moody's assessment was part of its response to a Third Circuit Court ruling in mid-April that determined the Government of the Virgin Islands was not responsible for $43 million of a $60 million suit brought against it by G.E.R.S. The ruling represented a positive for the G.V.I., Moody's said, but the savings of $43 million does nothing to address a much larger issue — a pension system liability of an amount Moody's estimated to be $5.3 billion.

Moody's Senior Credit Officer Thomas Aaron, and Managing Director Timothy Blake, stated, "[The ruling] does little to alter the looming insolvency of GERS within the next several years. The USVI almost certainly cannot afford to pay pensions directly to retirees if GERS depletes its assets, and likely cannot politically cut benefits while paying debt service in full to bondholders, meaning a GERS insolvency is highly likely to drive a debt default and restructuring."

A new plan could incorporate excise tax revenues as part of the security for a credit facility. Senator Donna Frett-Gregory has in the works through a bill request (BR) a measure that seeks to use the roughly $40 million in projected annual excise tax revenues that the territory can once again collect to help secure the funding.