

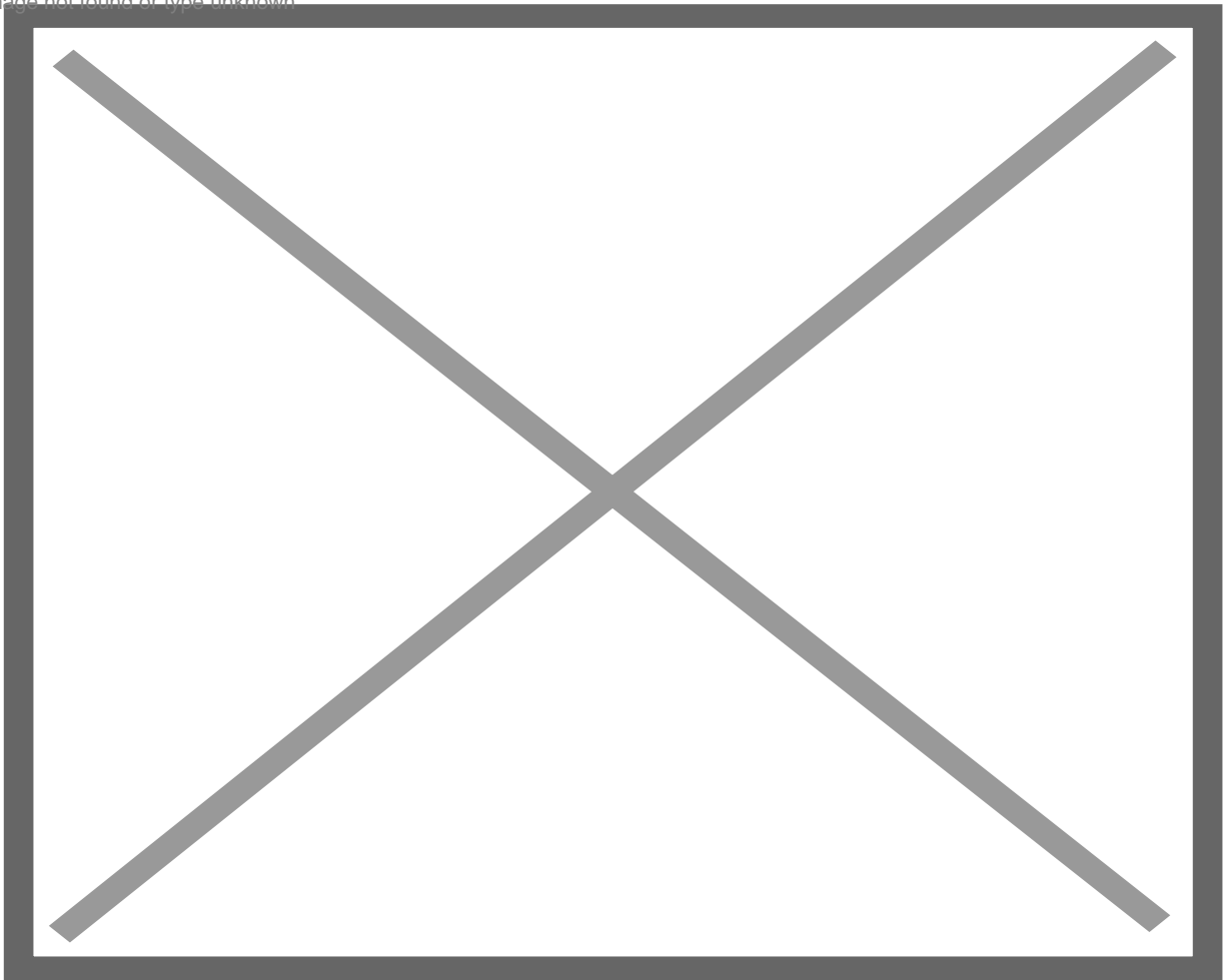
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Chronic Shortfalls at GERS Continues Even After Cash Infusion, Causing System to Liquidate \$30 Million From Portfolio in 2022

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The Government Employees Retirement System continues to drain its portfolio to pay benefits even after a securitization deal that resulted in an immediate infusion of cash of \$157 million.

GERS Investment Officer Glenville Henderson, who presented his December 2022 performance report to the System's Board of Trustees during last week's Board meeting, provided board members with concerning news regarding the pension system's portfolio.

Mr. Henderson noted that in October 2022, GERS received \$157 million in bond notes from the Government of the Virgin Islands, as part of a \$3.8 billion funding note under the Bryn administration's solvency plan.

These funds assisted with the system's performance in December, the Investment Officer said, but could not fully eliminate the shortfall that resulted in a \$30 million drawdown from the systems's portfolio by year's end.

"We still have a fundamental shortfall in terms of the amount of contributions we get and the amount of benefit payments that we have to make," Mr. Henderson said. "And as long as we have that fundamental shortfall between those two items, we generally will still have to pull or liquidate assets to make up that shortfall."

In December, for example, the pension system collected just under \$13.5 million, which was a little over half of what was needed for disbursements totaling over \$26 million.

For the past five years, GERS has had average shortfalls of \$120 million, according to the board.

The chronic deficits, said GERS Administrator Austin Nibbs, will be addressed at an upcoming meeting between himself and Governor Albert Bryan Jr. and at a meeting between the Senate body and the GERS Board scheduled for February 17th.

During a wide-ranging interview with Consortium publisher Ernice Gilbert, Mr. Bryan said that the U.S. Congress's inability to include an increase in rum cover-over tax collection from \$10.50 to \$13.25 in its year-end \$1.65 trillion Omnibus bill last year represented a major problem for the pension system.

"It's a problem, it's a big problem," the governor said, adding that the issue is not winning approval in Congress, it's getting a significant bill in Congress to which the tax extender can be attached. "We've got to find a bill to attach it to," he said.

Rum cover-over funds are taxes collected by the U.S. Treasury on behalf of the V.I. Government on rum made in the USVI and sold on the mainland.

"We've gone a year and a half without getting the rum cover-over and they give it to us retroactively. I feel pretty confident about that," the governor stated, adding that Puerto Rico is also being affected. "Our strategy is find bigger dogs that are in this fight to ride with."

"People are [acting] like it's the end of the world. It's really not because remember this is a contribution to the overall wealth of the GERS, so it just makes the years probably that this is going to make the GERS solvent a little less because we didn't get the money soon enough," Governor Bryan said, further stating that now is a good time to be putting money into the pension system because of declining interest rates.

In late August of 2022, the U.S. Dept. of Interior announced \$226.1 million in rum-over funds to the territory, representing 2023 estimated payments. The money is provided annually and used for a number of obligations, including some of the USVI's covenants with bondholders.

However, 2022's remittance was tens of millions of dollars less than the \$273 million received in Sept. 2020, which represented estimated payments for 2021. That's because the rum cover-over tax is now being assessed at \$10.50 per proof gallon of rum, instead of the \$13.25 for the past five years.

Delegate to Congress Stacey Plaskett, after criticism from then-Senator Kurt Vialet, assured that the matter would be addressed by the end of 2022 and that the U.S. Treasury would retroactively pay the remainder of the funds. However, the increase was not included in the omnibus bill, with

Ms. Plaskett suggesting it would have been more prudent for the local government to use the lower rate of \$10.50, instead of the \$13.25 as an estimate of potential revenue collection for the securitization deal.

“Because all tax extenders have been a contentious issue used for negotiation in both parties, and the cover over cliff was pending, our office had taken the position that it would be prudent to use the lower rate of cover over for any estimation of use or budgeting purpose,” she said. “Due to ongoing negotiations in Congress, there were no tax provisions (not even disaster tax) in the year-end federal government funding bill.”

Earlier this year, the Bryan administration reached a 30-year historic bond sale agreement that was billed as the savior of GERS, as it was expected to provide \$3.8 billion to the pension system during a 30-year period.

The agreement, which utilizes a special type of corporate entity called the Matching Fund Special Purpose Securitization Corporation, was specifically authorized by the Legislature to issue bonds based on rum tax revenues at a rate of \$13.25 per proof gallon. However, the base rate as written into federal law is \$10.50 per proof gallon, though the Virgin Islands and Puerto Rico have historically been provided with tax extenders that carry the tax rate to \$13.25.

Following Hurricanes Irma and Maria, the USVI and PR received a five-year extender that expired in December 2021, and the Dept. of Interior in its most recent remittance to the U.S. Virgin Islands calculated the tax rate at the base level of \$10.50. This resulted in a shortfall of \$59.2 million, funds slated to be provided to G.E.R.S. as part of the securitization deal to stabilize the pension system.