

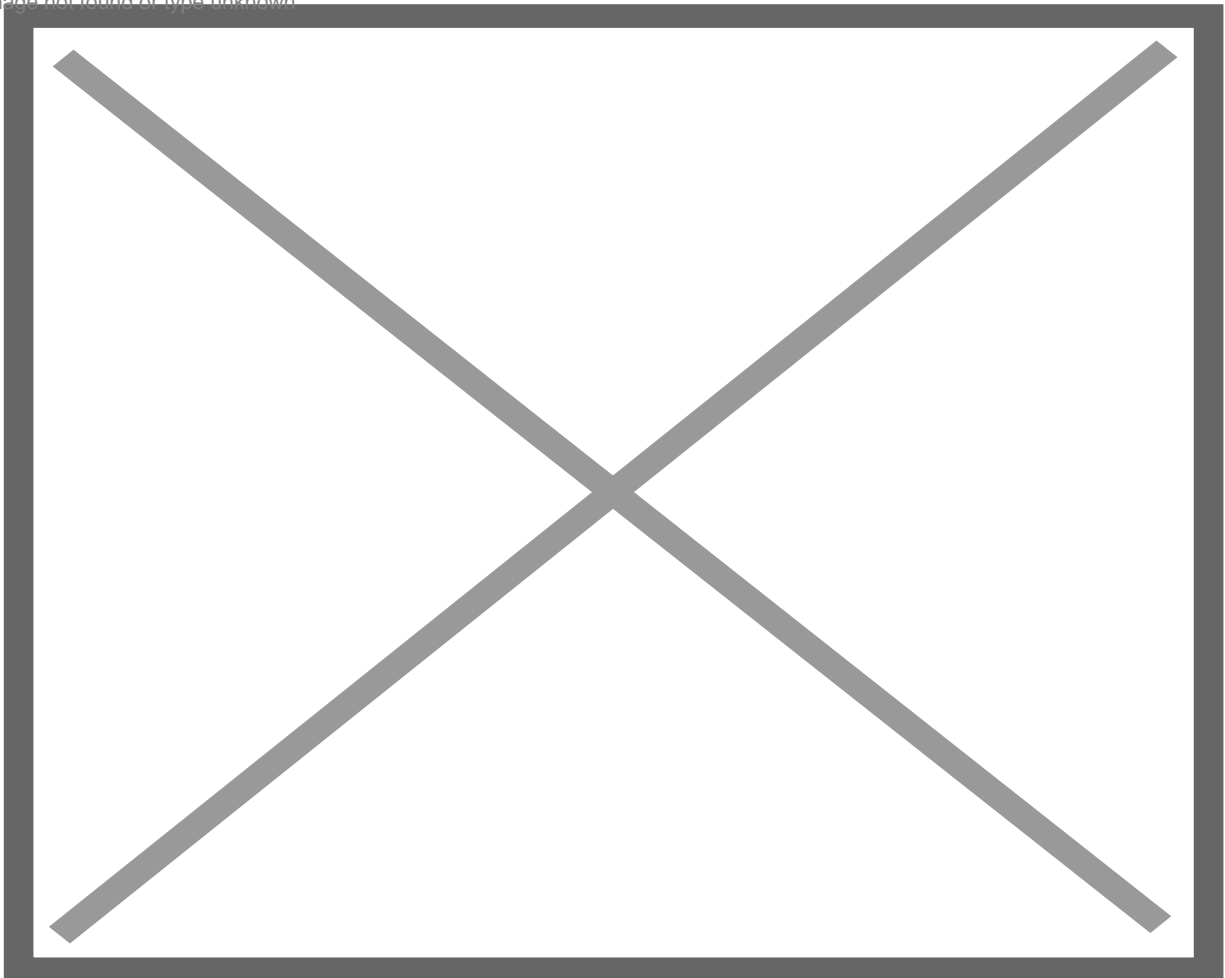
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PFA Says Securitization Deal Would Survive at \$10.50 Rum Cover Over Tax Rate, Expresses Confidence Congress Will Restore \$13.25

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Nathan Simmonds, the director of finance administration at the Public Finance Authority (PFA) is confident that the rate of reimbursement on excise taxes for rum will be re-adjusted by year's end, giving the Government Employees' Retirement System the additional funds it will need to sustain its operations. He also believes that the Matching Funds Securitization Corporation would be effective even if the rate remained at \$10.50, though it would extend the agreement by seven years.

The U.S. Virgin Islands is [hoping to get](#) a final, permanent "extender" on the amount of funds remitted by the federal government for excise taxes on rum produced in the territory and sold on the mainland.

“We strongly believe that we’re going to get the cover over extender during this calendar year, albeit it might be closer to the end of the year,” said Mr. Simmonds Tuesday during a Committee on Budget, Appropriations & Finance hearing.

“We have our Washington team constantly in touch with the members of the Congress, the White House and the Treasury, so we feel very confident that it is going to pass,” he added.

The extender would provide for the current statutory rate of \$10.50 per proof gallon sent back to the territory to increase to the full tax of \$13.75. Based on historical projections of rum sales, that extra \$3.25 per proof gallon could result in an additional \$30 million in funding for GERS as part of the securitization deal meant to stave off collapse of the system.

Mr. Simmonds urged patience, noting that there are about 30 different tax extenders affecting a multitude of U.S. states that are all asking to be passed. “Even Republican-controlled states have some form of tax extension coming up or have become due for entities in their states as well. So, it’s not just that we are in this battle alone,” he said.

However, legislators are concerned that the current rate of \$10.50 will lead to a shortfall in GERS revenue for the next two years based on the recently passed securitization deal – a shortfall that they would be required to fill.

Committee Chair Senator Donna Frett-Gregory said GERS is “making assumptions that we will have a shortfall for the next two years and that also impacts the solvency of the system and of course they are asking the legislature, and they did make that ask before, that we appropriate an additional 3% to cover the employer contribution”.

GERS has also asked the legislature to add \$15 million in resources to its budget to fund the gap for its annual payments overtime. Ms. Frett-Gregory said the legislature purposefully did not include rum-cover over projections in its budget for this fiscal year to ensure the territory could meet its obligations to GERS regardless of the possible tax increase.

She was, however, concerned about how the loss of the additional \$3.25 may affect GERS ability to pay back its debts.

In February 2022, Governor Albert Bryan Jr. signed [legislation to create](#) a separate entity through which bonds based on rum tax revenues could be issued. These bonds permitted refinancing of the territory’s debt obligations on more favorable terms at current interest rates.

The Matching Funds Securitization Corporation refunded the government's outstanding matching fund bonds and allowed the entity to use the savings from the restructuring to create a note to the GERS to pay \$4 billion over the next 30 years.

“The intent of that was certainly to cure the insolvency of the system and as you know, the ability to do that is based on our continued receipt of the cover-over revenues at the \$13.25 rate,” Mr. Simmonds said. “We received the 2023 cover over at the \$10.50 rate because the extender had not been enacted when it expired in December of 2021,” he added.

According to Mr. Simmonds however, the investors, when purchasing the bond, were aware that the statutory rate was \$10.50. “They knew that the possibility always existed that the rate could be at \$10.50”. Therefore, Mr. Simmonds said the reduction in the rum tax rate has no impact on the outstanding bonds.

“At the \$13.25 rate the debt service coverage on the bonds is about three-times what was needed to pay the debt service. At the \$10.50 rate it dropped slightly to about two-and-a-half times what is needed for the debt service coverage. So, the bonds are fairly well secured even at the lower rate,” he explained.

“The way the note is structured, with the GERS if there is any shortfall in the amount of revenues to fund the note then that is made up when the funds are available next. So, there is no penalty or anything like that,” he said.

“Even if the \$13.25 extender is never passed by Congress, what that would mean in terms of the GERS is that the note, instead of terminating in 2052, would go for an additional seven years and actually be terminated in 2059 because it would take us that additional seven years to pay off the amount of the shortfall to the GERS,” he said.

Additionally, Mr. Simmonds said last year’s shortfall of \$64 million is not wholly attributable to GVI since the liability is shared between the government and the rum companies, namely Diageo and Cruzan Rum. In 2022, GERS, he said, was only short by \$32 million to fund its note in 2022.

"The GERS note is just about \$158 million annually which is the residual amount from the cover over after the bonds are paid, after the rum companies get their share, after the expenses are paid, we were short about \$32 million, I believe to fund the GERS notes," he explained.

If the extender is not passed before September 2023 GERS will suffer a loss between \$20 million and \$30 million for the note payment.