# Days Cash on Hand: The Crucial Metric Behind the Virgin Islands' Financial Struggles

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Earlier this year, the Government of the Virgin Islands (GVI) reported that it had ten to fifteen days cash on hand. The narrative, then, was that the GVI was “doing better” fiscally. In a more recent update, it reportedly had only four to five days of cash on hand. This time, the narrative was that the GVI was “cash strapped”; but it came with the caveat that the numbers were “not real”. Which begs the questions: what does this metric mean and why does it matter?

An analogy might be helpful. A Boeing 747 airplane consumes 3,600 gallons of fuel per hour (on average). So, if it has 16,000 gallons of fuel in its tanks, it could fly for about four and a half hours before it runs out of fuel; it is said to have four to five hours fuel on board. Likewise, if a hypothetical government consumes – pays out -- $3.6 million per day (on average), and it has $16 million of operating cash in the bank, then it could operate for about four and a half days before it runs out of cash; it is said to have four to five days cash on hand (DCOH).

DCOH is the estimated number of days that a government (or business) can continue to pay its operating expenses, given its available cash – at the time it is calculated. It is a widely accepted and cited measure of an organization's capacity to meet its operating cash needs – also known as its liquidity position. It is as "real" to fiscal managers as the fuel level is to pilots. To lenders and vendors, it is an important consideration in assessing a borrower's credit worthiness. Credit rating agencies identify it as a key factor in assessing financial strength and determining credit rating.

To put the GVI's reported cash position into perspective: the Government Finance Officers Association recommends a minimum of 45 DCOH for municipal governments; Moody's rating guidelines for municipal governments expect 35 to 150 DCOH for A-rated credit. So, four to five days cash on hand is clearly cause for concern; particularly since it is trending downward.

A lot of bad things will happen if the GVI were to run out of cash -- to a lot of people individually, to the Virgin Islands community collectively and to the VI economy eventually. That is the context for the recent push to establish a $150 million line of credit. A line of credit (LOC) is considered equivalent to cash -- because it is easily converted to cash. So, in the hypothetical example above, a $150 million LOC will add 41 more days cash on hand – a much more resilient cash position.

Cashflow problems are usually lagging indicators of structural financial stress. Meaning, that by the time the cash crunch comes, other factors – such as chronic operating deficits and resulting high debt levels -- have already weakened the financial infrastructure. In the GVI's case, these weaknesses are being masked by the billions of Federal dollars made available over the last six years or so – approximately $12 billion according to latest GVI testimony. The GVI must use the opportunity to build resilience into its financial infrastructure; while it builds resilience into the physical infrastructure.

As keepers of the Virgin Islands public purse, the VI Legislature is ultimately responsible for its solvency; and by extension, for the consequences of its insolvency. Therefore, its role in the GVI's fiscal and financial rehabilitation is paramount and pressing.

**This Opinion was submitted by Nellon L. Bowry on Tuesday, April 11, 2023.**

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