

The Real Plan: A Solution

Securitization Explained

COVID-19 has negatively impacted commerce, tourism, and revenues in the U.S. Virgin Islands. Small businesses have been forced to close, residents have become unemployed, and the Government's revenue collections have decreased. We still suffer from the effects of 2017 Hurricanes Irma and Maria. We must plant some new seeds that will help us recover, grow, and prosper. We must build back our house.

We are now at a crossroads. Do we miss the opportunity to raise funds for Government operations by lowering the interest cost and reducing our debt? Do we establish a new approach that provides us with the ability to use our savings for our benefit and gives us the advantage of new revenue?

At last, there is a solution. We have been diligent savers and it has paid off. Now we can refinance our existing Matching Fund debt and use the savings for our current priorities including the Government Employees Retirement System (GERS), infrastructure, education, health care, etc. These are some of the possibilities that can be decided by the Governor and the Legislature when the refinancing is complete.

VI Debt Reduction Plan

Combining debt reduction, priority spending and creating new revenue sources are the tools we must use for rebuilding. Over the last decade, under the watchful eye of legislators and governors, Virgin Islanders have witnessed the Government diligently paying back our debts to those who have invested in us by loaning us money through purchasing bonds. In exchange for their bond purchase, we pay them interest and reduce principal when the Rum Cover Over Funds (Matching Fund Receipts) are received each year.

Reduction Part I – Phase out the old structure

Under the current outdated bond structure, a limited “rainy day fund” was established to help bondholders feel comfortable that some money was set aside to be available to pay them in the event of a shortfall of Matching Fund Receipts. In other words, the fund was never there to support us – it is there for the comfort of the bondholders so that **they** would not experience a rainy day. The rainy day fund, known in the financial world as the Debt Service Reserve Fund, was a necessary tool as part of the old structure that is no longer necessary to access the bond markets today under the new structure.

As of October 31, 2020, we have \$128 million in the rainy day fund. The fund sits untouched and has never been drawn upon to pay any investors because Matching Fund Receipts have always been sufficient to pay interest and principal to our bondholders. In other words, we have \$128 million sitting in a fund while the needs of our residents and community go unmet. With new legislation, and under the new structure, we can release the reserve funds and open the door to new opportunities that will help us build back.

Here's how it will work:

New legislation can be passed by the Senate and signed by the Governor to authorize a new bond structure that allows us to refinance our bonds for savings, reshape our debt service, and release monies

that can be applied to reduce the amount of bonds issued. This authorization would provide \$85 million right now and in each of the next two fiscal years for a total of \$255 million that we can use to fund our priorities. Subject to the decision of the Legislature and the Governor, some of the savings can be used as a first step towards the solvency of GERS.

Reduction Part II – The Matching Fund Securitization Corporation

Our Matching Fund Securitization Corporation, to be re-established by legislation, and already favorably recognized by potential bondholders, will sell bonds to investors. The investors will loan us money by purchasing bonds from the Matching Fund Securitization Corporation. As before, we will pay the investors and the rum companies from the Rum Cover Over Receipts.

Since we will not be paying the higher interest rates that we were previously obligated to pay, the overall amount of debt service will be reduced. The annual revenues from the Rum Cover Over Receipts are projected to be greater than the payments owed each year with the excess amount flowing back to the Government and the rum companies. *IHS Markit*, an international independent research and analysis firm noted in its September 2020 report that Diageo’s Captain Morgan Rum and Beam Suntory’s Cruzan Rum produced here on St. Croix are two of the top five leading brands of rum consumed in the U.S over the last five years. Based on the amount of Rum Cover Over Receipts projected to be received (*IHS Markit*), and the new stronger bond structure, our bonds should be attractive to potential investors.

With the activation of the Matching Fund Securitization Corporation, net savings over the 20 years of the transaction can range between \$44 million to more than \$80 million. Recent projections show overall savings to the Government in the middle of the range but the exact amount will not be known until pricing of the bonds. The immediate effect of the transaction is to invest increased dollars over the next three years in a manner that improves the economic health and viability of the Virgin Islands.

The Matching Fund Securitization Corporation will be an independent, autonomous entity of the Government of the Virgin Islands. We already have similar corporations successfully managing and administering some of our funds. The VI Lonesome Dove Corporation receives and administers revenues derived from certain investment interests, and net revenues are ultimately directed to the GERS and the Senior Citizens Fund;—the VI Tobacco Financing Corporation receives and administers the Tobacco Settlement Funds which were used to fund the Charlotte Kimelman Cancer Institute on St. Thomas, the construction of the V.I. Cardiac Center on St. Croix, and other health care capital projects.

New Beginning – Fund Priorities and Rebuild Now

With all the money we expect to save, Virgin Islanders will experience debt relief, begin to pave a road towards solvency of the pension system, complete infrastructure projects, generate economic activity, and fund other priorities including education and health care. The allocation of the funds remains as always, under the watchful eyes of the Governor and the Legislature.

This is a *real* plan that will lead us to growth and success. Don’t let anybody tell you different!

Doing nothing more provides nothing more for our priorities.

Dollars and Sense Summary

A successful refinancing through the Matching Fund Securitization Corporation can provide:

- ✓ \$85 million right now and in each of the next two fiscal years for a total of \$255 million that we can use to fund our priorities.
- ✓ savings through lower interest rates versus the higher interest cost on the existing bonds.
- ✓ a stronger bond structure for investors with every \$1 in annual debt payment to bondholders projected to be covered by at least \$3 in revenue received from the Rum Cover Over Receipts.
- ✓ the ability to make new investments today and create economic opportunity that will generate returns that can improve the Virgin Islands economy.

We must act quickly to minimize the risk that interest rates may rise.

The 33rd Legislature will convene in Special Session on Thursday, December 3, 2020 to hear this proposal.

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