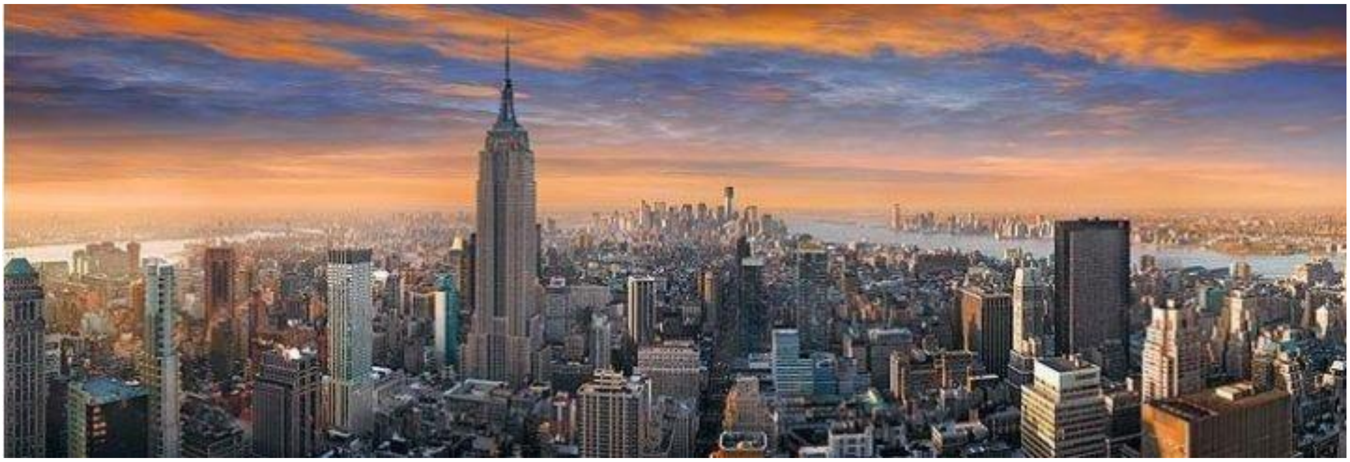

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Virgin Islands Cuts Ties With Rating Agencies

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For years, investor demand drove the sale of Virgin Islands' (USVI) triple tax-exempt debt. Bond issues typically finance infrastructure and capital projects. But, in the case of Puerto Rico and the Virgin Islands, officials increasingly relied on deficit financing to cover budget deficits and government operations.

This resulted in several downgrades of USVI ratings that scared away investors and forced the government to cancel a planned bond offering in January, costing the Virgin Islands market access and the ability to borrow funds to pay for basic government operations. As a stopgap, USVI diverted its workers' pension contributions.

Last month, rating agencies downgraded Virgin Islands' rating to triple-C, deep into junk status. Governor Kenneth Mapp responded by ending its relationship with Moody's, Standard and Poor's and Fitch, no longer providing them financial information. "We've severed our ties with them; there's no need. We don't have market access, so it makes very little sense," said Gov. Mapp.

At almost $2 billion, the USVI has much less in tax-supported debt outstanding than Puerto Rico. But with a much smaller population of 103,000, that equates to about $19,000 per resident, compared with $17,000 in Puerto Rico.

The government believes it is being unfairly treated due to Puerto Rico's debt crisis, saying rating determinations are not being made because of any new negative developments in USVI, but because of the situation in Puerto Rico.

Gov. Mapp was quick to reassure bondholders by reminding investors USVI has never been late on a payment, much less defaulted on a bond or loan agreement. He also said that come September, the USVI will make its semi-annual payment on all of its debt obligations. These obligations, he revealed, are not for 2018, because those have been already paid, but for 2019.

The estimated budget deficit is $100 million (or 15% of expenditures) and unfunded pension liabilities total $3.1 billion for fiscal 2017. The governor has stated that his fiscal 2018 budget (beginning Oct. 1) and a proposed five-year plan will focus on austerity and measures to re-align revenues with expenditures, improve the sustainability of the pension system, and boost economic development efforts.

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About the Author

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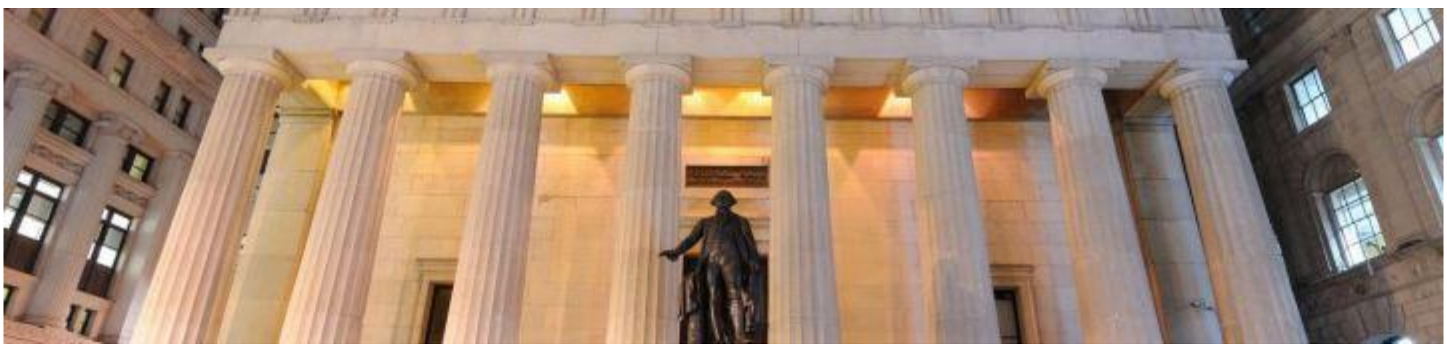
Hernando Montero-Salazar is Director of Municipal Credit Analysis at Stoever Glass & Co., Inc. Mr. Montero-Salazar has a background as a municipal research analyst and consultant who provided fundamental credit analysis to various buy/sell side firms. He was previously associated with Samuel A. Ramirez & Co., initially as an Associate and later as Vice President of the Municipal Credit Strategy group, where he supported the sales and trading efforts of institutional and retail desks.

In addition, Hernando was the interim head of the Municipal Credit Strategy group and was responsible for overseeing the municipal credit risk needs of Ramirez & Co. for primary market, secondary market, underwriting, and regulatory/compliance purposes, and covered all sectors of the municipal market traded by the organization.
Mr. Montero-Salazar began his career at UBS Asset Management of Puerto Rico as a Portfolio Analyst, where he served as the primary analyst of nine close-end fixed-income funds with nearly $2 billion in shareholder assets. He received his B.B.A. in Finance, Magna Cum Laude, from Universidad del Sagrado Corazón. Hernando holds his General Securities (Series 7) license.

"We are pleased to welcome Hernando to the Stoever Glass family, and look forward to offering his insights and analytical expertise to our clients," said Roland Stoever of Stoever Glass. "His background in fixed income and municipal instruments is a solid fit for our organization."



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