THE BOND BUYER

About $918 million in U.S. Virgin Island bonds expected Wednesday

By

Robert Slavin

Published

March 29, 2022, 3:56 p.m. EDT

About $918 million of U.S. Virgin Islands bonds are expected to price Wednesday after eligible matching fund bondholders agreed to tender about 75.2% of their bonds.

The refunding bonds are an attempt to prevent its pension system from running out of money, something the U.S. Virgin Islands actuary has said could happen in 19 months.

The U.S. Virgin Islands Public Finance Authority late Monday said $124.6 million of the $165.7 million that was eligible were tendered by existing bondholders.

The U.S. Virgin Islands is trying to solve a pension underfunding problem with a $918 million bond sale on Wednesday. **Bloomberg News**

The tender offer offer was made to six CUSIPS of Series 2012A, 2013A, and 2013B bonds that mature from Oct. 1 of this year to Oct. 1 of 2032. They were purchased at from 103.124% to 108.0967% of the principal amount.

Moody's Investors Service said the island's adjusted net pension liability was $3.3 billion as of fiscal 2019. Moody's rates the existing matching fund bonds Caa2 and Caa3.

The Matching Fund Special Purpose Securitization Corporation is the conduit in the refinancing of the existing bonds. The preliminary official statement said $793 million of tax-exempt Series 2022A and $125 million of taxable Series 2022B bonds would be priced.

The Virgin Islands government will first sell the matching fund revenues, which come from fees on the sale of the territory's rum sold in the United States, to the newly created special purpose corporation. The proceeds from the sale will be used to call or defease all U.S. Virgin Islands Public Finance Authority matching fund bonds.

The government will pledge $158 million per year of the matching fund revenues over the next 30 years. The first lien of this will be for debt related costs to the securitization corporation. The balance will go to the islands' pension system, the Government Employees Retirement System.

If the sale goes ahead and all other conditions go as planned, the actuary believes the transaction would assure the pension system would not run out of assets in the next 30 years and, indeed, would increase its assets in the 2040s.

Ramirez & Co. is the senior manager for the expected deal and Jefferies is co-senior manager.

"The island is overloaded with debt and pension liabilities that dwarf its tiny $4 billion economy, and with liquidity thin, it could use the budget relief," noted CreditSights in a Friday report. "[The] Government of Virgin Islands has set up a securitization structure to attempt to complete the deal."

The deal comes to market with one rating, BBB from Kroll Bond Rating Agency.

The bonds have "a strong legal framework that KBRA believes will substantially insulate the pledged Matching Fund Receipts and the Corporation from the credit risk of the Virgin Islands," the rating agency says.

The rating "seems too high by multiple categories given the exceptionally narrow revenue stream from two rum producers, and the island's difficult fiscal condition, small economy, and dubious governance," CreditSights said.

CreditSights said the sale "purports to be remote from the island's credit, but we are skeptical given the constitutional ability of Congress to manage the affairs of its territories.

"We do expect demand from high yield funds, particularly for the triple-tax exempt paper, yet we anticipate spreads will be nowhere near the level suggested by Kroll's dubious BBB rating," the firm said. "Investors with a low tolerance for risk should steer clear."

The tax-exempt Virgin Islands Public Finance Authority 2012 with a maturity in 2032 was evaluated by Intercontinental Exchange (ICE) on March 23 at 4.72% yield to worst.

If the deal happens, the new bonds will have serial maturities from 2025 to 2039.

Mackay Shields, Nuveen, Fidelity, and Vanguard were some of the major holders of the matching fund bonds in recent years, one source said. These same firms may be interested in buying the new bonds, he said.

Fidelity declined to comment to The Bond Buyer. Mackay Shields, Nuveen, and Vanguard did not immediately provide comments.