CREATION OF MATCHING FUND SECURITIZATION CORPORATION  
(SPECIAL PURPOSE VEHICLE)

Purpose: to improve liquidity, reduce debt burden for the Virgin Islands of the United States, and re-establish market access

TALKING POINTS FOR MEDIA INTERVIEWS, QUICK REFERENCE, RADIO TEAM, SOCIAL MEDIA

BACKGROUND

• The Government of the Virgin Islands (GVI), through the Virgin Islands Public Finance Authority (PFA), has previously sold bonds in order to provide funds for the cost of infrastructure and economic development, and to support rum production by Cruzan Viril Ltd. (Cruzan) and Diageo USVI Inc. (Diageo).
• The U.S. Treasury collects $13.25 per proof gallon of rum in excise tax revenues (Matching Fund Receipts or Rum Cover Over) and sends the monies to the escrow account (lockbox) at The Bank of New York (Trustee). It is then distributed to pay 1) periodic principal + interest to the bondholders, 2) the rum companies, and 3) the GVI.
• A debt service reserve fund (DSRF) was established to assure bondholders they would be paid. The monies in the DSRF come from setting aside a portion of the high interest bond proceeds.
• The GVI pays an estimated $7.6M annually in interest to keep the money in the DSRF.

NEW BEGINNINGS—THE SPECIAL PURPOSE VEHICLE CORPORATION (SPV)

• The much talked about and newly created Special Purpose Vehicle (SPV or Matching Fund Securitization Corporation) is like the fresh start we enjoy when we are able to refinance our mortgages, make lower payments, and use money previously spent on interest to make repairs and additions to our homes that will allow our families, our parents, and even our tenants, to live more comfortably.
• The 33rd Legislature established the SPV in Bill #33-0363 to sell bonds and use the money from their sale to purchase the right to collect the future Matching Fund Receipts revenue stream from the GVI.
• The SPV allows the GVI to refinance the existing $1.005 billion debt of the PFA at lower interest rates and the new 20-year debt will only be approximately $900M.
• The SPV Corporation is an autonomous entity of the government that will isolate financial risks to the GVI by taking on the bond debt of the PFA.

DEBT SERVICE COVERAGE CONCERNS

• The cost of maintaining a debt service reserve fund of $130M has been quite expensive for the people of the Virgin Islands and has resulted in the GVI receiving less of the residual rum tax receipts in the past.
• The investors will be pleased because in the structure of the SPV, $3 in matching fund receipts will cover every $1 of principal and interest to be paid on the SPV bonds. Currently the bondholders are only assured debt service coverage of $1.50 per $1 of principal and interest.
OVERVIEW AND EXPLANATION OF THE SPV CORPORATION

- The SPV will now be the entity that negotiates the sale of bonds backed by the Matching Fund Receipts (rum cover over).
- The SPV gives the GVI relief from the high interest debt that the PFA is currently obligated to pay.
- It is a structure that is known, accepted, approved and highly regarded by the investment community. Bondholders will see the SPV bonds as a creditworthy investment.
- The GVI has experienced poor credit ratings over the last several years resulting in lack of investor support. The GVI has not been able to raise funds for infrastructure improvements, economic development and funding for agencies such as health, education and the Government Employee Retirement System.
- The SPV is expected to have an investment grade credit rating that is significantly higher than that of the GVI and will be viewed more favorably by the investment community.
- This transaction is expected to result in an additional $85 million in available funds annually for the GVI in each of the next three fiscal years.
- A portion of the $85M can now be used to unlock FEMA funds that the GVI has not been able to access until now. FEMA grants $9 for every $1 we can provide. For example, the GVI can unlock $90M in grant money for every $10M we provide as a match. These monies can be used in ways that will provide additional funding for the GERS, create jobs, and support small business development.
- The highest debt service payment in any one fiscal year on the new SPV bonds will be approximately $80M which will be lower than the annual payment on the currently outstanding bonds which is approximately $108M.

SUMMARY

- The time for this borrowing is optimum to access low interest rates. The SPV will avoid at least $40 million in future interest that it would have to pay by not using a debt service reserve fund.
- The concept of the SPV is not new. The VI Lonesome Dove Corporation and the VI Tobacco Settlement Financing Corporation are similar financial structures.
- Interest rates change daily and could move upward at any moment. The impending presidential election adds an additional layer of risk that interest rates could change significantly in the coming months.
- With the approval of the 33rd Legislature, savings for the Government of the Virgin Islands could begin on October 1st of this year.
- The establishment of the SPV will set the US Virgin Islands on an upward trajectory to long term economic growth, plant the seeds of prosperity, create a new fiscal outlook and bring the Territory a fresh start.