

***TESTIMONY ON FISCAL YEAR 2017 BUDGET  
THE V. I. PUBLIC FINANCE AUTHORITY  
COMMITTEE ON FINANCE  
31<sup>ST</sup> LEGISLATURE OF THE VIRGIN ISLANDS***

***WEDNESDAY, JULY 20, 2016***

***EARLE B. OTTLEY LEGISLATIVE HALL***

***3:00 P.M.***

***BY:***

***VALDAMIER O. COLLENS, EXECUTIVE DIRECTOR***

***V.I. PUBLIC FINANCE AUTHORITY***

## **INTRODUCTION:**

**GOOD MORNING, HONORABLE SENATOR CLIFFORD F. GRAHAM, CHAIRMAN OF THE COMMITTEE ON FINANCE, DISTINGUISHED MEMBERS OF THE FINANCE COMMITTEE OF THE 31ST LEGISLATURE OF THE VIRGIN ISLANDS, LADIES AND GENTLEMEN IN THE CHAMBERS AND IN THE LISTENING AND VIEWING AUDIENCES.**

**I AM VALDAMIER O. COLLENS, EXECUTIVE DIRECTOR OF THE VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY (“PFA”). I AM ACCOMPANIED TODAY BY DENISE RHYMER, BOND PROCEEDS AND COMPLIANCE SENIOR MANAGER, AND JOY WHEATLEY, OPERATIONS ANALYST.**

**MR. CHAIRMAN, WE APPEAR BEFORE YOU TO DISCUSS THE OPERATIONAL ACTIVITIES AND BUDGETARY PRIORITIES OF THE PUBLIC FINANCE AUTHORITY FOR FISCAL YEAR 2017, WHICH IS SUBJECT TO APPROVAL BY THE BOARD OF DIRECTORS. AS SUCH, I WILL BEGIN MY TESTIMONY WITH AN OVERVIEW OF THE STRUCTURE OF THE ORGANIZATION.**

## **STRUCTURE OF THE PUBLIC FINANCE AUTHORITY:**

**THE VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY WAS CREATED BY ACT NO. 5365 (AKA “THE GOVERNMENT CAPITAL**

**IMPROVEMENT ACT OF 1988”) AS A PUBLIC CORPORATION AND AUTONOMOUS GOVERNMENTAL INSTRUMENTALITY. THE AUTHORITY’S PRIMARY DUTIES ARE TO AID THE GOVERNMENT IN THE PERFORMANCE OF ITS FISCAL DUTIES, TO RAISE CAPITAL (PUBLIC OR PRIVATE) FOR ESSENTIAL PUBLIC PROJECTS, AND TO CREATE PROGRAMS WHICH WILL SERVE THE FINANCING NEEDS OF THE PEOPLE OF THE TERRITORY.**

**UNDER THE ENABLING LEGISLATION, THE PUBLIC FINANCE AUTHORITY IS VESTED WITH, BUT NOT LIMITED TO, THE FOLLOWING POWERS: (I) TO HAVE PERPETUAL EXISTENCE AS A CORPORATION; (II) TO BORROW MONEY AND ISSUE BONDS; (III) TO LEND THE PROCEEDS OF ITS BONDS OR OTHER MONEY TO THE GOVERNMENT OR ANY AGENCY, AUTHORITY OR INSTRUMENTALITY THEREOF, AND TO PRIVATE ENTITIES; (IV) TO ESTABLISH ONE OR MORE REVOLVING LOAN FUNDS WITH THE PROCEEDS OF BONDS ISSUED BY THE PUBLIC FINANCE AUTHORITY OR ISSUED BY THE GOVERNMENT OR ANY AGENCY, AUTHORITY OR INSTRUMENTALITY THEREOF; AND, (V) TO INVEST ITS FUNDS AND TO ARRANGE FOR THE INVESTMENT OF THE FUNDS OF THE GOVERNMENT OR ANY AGENCY, AUTHORITY OR INSTRUMENTALITY THEREOF.**

## **MANAGEMENT:**

**THE AUTHORITY IS UNDER THE CONTROL OF A SEVEN MEMBER BOARD OF DIRECTORS. THE AUTHORITY'S BOARD OF DIRECTORS IS CHAIRED BY THE GOVERNOR, WITH THE COMMISSIONER OF FINANCE AND DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET SERVING AS THE EX-OFFICIO MEMBERS OF THE BOARD. IN ADDITION, FOUR PRIVATE CITIZENS ARE APPOINTED BY THE GOVERNOR, SUBJECT TO LEGISLATIVE CONFIRMATION, AND SERVE TERMS FOR A PERIOD OF FOUR YEARS. AT PRESENT, THERE ARE TWO BOARD MEMBERS SERVING FROM THE ST. CROIX DISTRICT AND TWO VACANT POSITIONS FOR THE ST. THOMAS-ST. JOHN DISTRICT.**

## **DEBT OBLIGATIONS:**

**THE REVISED ORGANIC ACT AUTHORIZES THE VIRGIN ISLANDS TO ISSUE SEVERAL TYPES OF MUNICIPAL SECURITIES. THE ACT DISTINGUISHES GENERAL OBLIGATION BONDS FROM REVENUE BONDS. THE ISSUANCE OF GENERAL OBLIGATION BONDS IS RESTRICTED TO AN AMOUNT NO GREATER THAN 10% OF THE AGGREGATE ASSESSED VALUATION OF TAXABLE PROPERTY IN THE TERRITORY. AS OF JUNE 30, 2016, THE**

**GENERAL OBLIGATION DEBT CEILING FOR THE TERRITORY IS APPROXIMATELY \$1.2 BILLION.**

**THE GENERAL OBLIGATION DEBT OF THE GOVERNMENT OF THE VIRGIN ISLANDS, AS OF JUNE 30, 2016, IS \$739 MILLION, AS OUTLINED BELOW:**

**GENERAL OBLIGATION DEBT OF THE GVI  
AS OF JUNE 30, 2016**

	<i>BONDS / LOAN NOTES</i>	<i>OUTSTANDING BALANCES</i>
1	2006 GROSS RECEIPTS TAXES BOND	199,830,000.00
2	2012A GROSS RECEIPTS TAXES BOND ( <i>WORKING CAPITAL</i> )	167,280,000.00
3	2012B GROSS RECEIPTS TAXES BOND ( <i>VINGN / BROADBAND</i> )	27,220,000.00
4	2012C GROSS RECEIPTS TAXES BOND ( <i>CAPITAL PROJECTS</i> )	31,725,000.00
5	2013A GROSS RECEIPTS TAXES LOAN ( <i>POLICE FLEET</i> )	1230157.00
6	2014A GROSS RECEIPTS TAXES BOND ( <i>WORKING CAPITAL</i> )	48,160,000.00
7	2014B GROSS RECEIPTS TAXES LOAN (IRS SETTLEMENT)	10,500,000.00
8	2014C GROSS RECEIPTS TAXES BOND (CAPITAL PROJECTS & REFUNDING)	242,495,000.00
9	2014D ( <i>VINGN / BROADBAND</i> )	5,600,000.00
10	2014E GROSS RECEIPTS TAXES BOND ( <i>WORKING CAPITAL</i> )	0.00
11	2016A GROSS RECEIPTS TAXES BOND (FIRST RESPONDERS)	0.00
12	2011 DELINQUENT PROPERTY TAX REVENUE ANTICIPATED	5,161,547
	<b>GENERAL OBLIGATION DEBT TOTAL</b>	<b>\$739,201,705.00</b>

THE TAX INCREMENT FINANCING DEBT OF THE GOVERNMENT OF THE VIRGIN ISLANDS IS \$12.8 MILLION, AS OUTLINED BELOW:

**TAX INCREMENT FINANCING DEBT  
AS OF JUNE 30, 2016**

	<i>TAX INCREMENT FINANCING</i>	<i>OUTSTANDING BALANCES</i>
1	2009 / 2011 / 2012 ISLAND CROSSING TAX INCREMENT *	\$12,825,622.00
	<i>TAX INCREMENT FINANCING TOTAL</i>	<i>\$12,825,622.00</i>

*\*GRT SERIES 2009 / 2011 / 2012 TAX INCREMENT REVENUE (ISLAND CROSSING PROJECT) IS PAID FROM THE GROSS RECEIPT TAXES COLLECTED FROM (THE HOME DEPOT) PROJECT*

THE CONTINGENCY FINANCING DEBT OF THE GOVERNMENT OF THE VIRGIN ISLANDS IS \$486.4 THOUSAND, AS OUTLINED BELOW:

**CONTINGENCY FINANCING DEBT  
AS OF JUNE 30, 2016**

	<i>CONTINGENCY FINANCING LOAN</i>	<i>BALANCE</i>
1	WAPA GUARANTY LOAN **	\$486,422.00
	<i>CONTINGENCY FINANCING TOTAL</i>	<i>\$486,422.00</i>

*\*\* A GUARANTY DEBT OF WAPA; NOT A CURRENT LIABILITY OF THE GVI*

**THE MATCHING FUND REVENUE OBLIGATION DEBT OF THE GOVERNMENT OF THE VIRGIN ISLANDS IS \$928.5 MILLION, AS OUTLINED BELOW:**

**MATCHING FUND REVENUE BONDS OF THE GVI  
AS OF JUNE 30, 2016**

	<i>BONDS / LOAN NOTES</i>	<i>OUTSTANDING BALANCES</i>
2	2009 MATCHING FUND BOND (CAPITAL PROJECTS & REFUNDING)	316,815,000.00
3	2010 MATCHING FUND BOND (WORKING CAPITAL)	390,570,000.00
4	2012 MATCHING FUND BOND (WORKING CAPITAL)	141,015,000.00
5	2013A MATCHING FUND BOND (REFUNDING)	33,790,000.00
6	2013B MATCHING FUND BOND (REFUNDING)	46,295,000.00
	<b>MATCHING FUND REVENUE TOTAL</b>	<b>\$928,485,000.00</b>

**THE SPECIAL LIMITED OBLIGATION DEBT OF THE GOVERNMENT OF THE VIRGIN ISLANDS IS \$272.7 MILLION, AS OUTLINED ON THE FOLLOWING PAGE:**

**SPECIAL LIMITED OBLIGATION DEBT OF THE GVI  
AS OF JUNE 30, 2016**

	<i>BONDS / LOAN NOTES</i>	<i>OUTSTANDING BALANCES</i>
1	2009 DIAGEO MATCHING FUND	237,095,000.00
2	2009 CRUZAN MATCHING FUND	35,575,000.00
	<b>SPECIAL LIMITED OBLIGATION TOTAL</b>	<b>\$272,670,000.00</b>

**IT IS IMPORTANT TO NOTE THAT BOTH THE DIAGEO AND CRUZAN BONDS ARE SPECIAL OBLIGATION DEBT OF THE PFA WHEREIN THE DEBT SERVICE ON THESE BONDS ARE TO BE PAID FROM EACH PROJECT’S REVENUES. HENCE, THE ULTIMATE RECOURSE FOR BONDHOLDERS OF THESE BONDS IS MATCHING FUND REVENUES GENERATED BY THE PROJECTS (SUBORDINATE TO SENIOR MATCHING FUND BOND OBLIGATIONS) AND NOT THE PFA OR THE GVI.**

**OPERATIONAL ACTIVITIES:**

**IN CONCERT WITH ITS MISSION, THE PUBLIC FINANCE AUTHORITY’S PRIMARY OPERATIONAL ACTIVITY IS THE INVESTMENT AND ADMINISTRATION OF THE DEBT SERVICE FUND**

**FOR THE DEBT INSTRUMENTS ISSUED (MAINLY BONDS AND NOTES) THAT IS ULTIMATLEY LOANED TO THE GOVERNMENT OF THE VIRGIN ISLANDS. THE PROCEEDS FROM THESE DEBT ISSUANCES ARE MANAGED BY THE PUBLIC FINANCE AUTHORITY ON BEHALF OF THE GOVERNMENT OF THE VIRGIN ISLANDS. THESE MANAGEMENT ACTIVITIES CONSIST OF INVESTING THE PROCEEDS IN PERMITTED INVESTMENTS, MANAGING THE DEBT SERVICE RESERVES, MAKING PAYMENTS OF THE VIRGIN ISLANDS AND RECEIVING PLEDGED REVENUES FOR THE TIMELY PAYMENT OF PRINCIPAL AND INTEREST.**

**PURSUANT TO ACT NO. 7864, WHICH AUTHORIZED THE VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY TO RECEIVE, HOLD AND MANAGE THE SHARES OF THE LONESOME DOVE PETROLEUM COMPANY (“LDP”) AND TO PROVIDE FOR THE DISPOSITION OF ANY INCOME REALIZED FROM THOSE SHARES, THE PFA’S BOARD OF DIRECTORS HAS AUTHORIZED THE RECEIPT OF THE LDP’ SHARES, BECOME AUTHORIZED SIGNATORIES OF THE LDP SPECIAL REVOLVING FUND ESTABLISHED AT FIRST BANK PUERTO RICO, AND HAS ENGAGED A COSULTANT TO ADVISE ON ANY TAX LIABILITY AND BEST MODE TO MANAGE LDP’S ASSETS AND OPERATION.**

**ADDITIONALLY, THE PUBLIC FINANCE AUTHORITY HAS BEEN CHARGED WITH COMPLIANCE OVERSIGHT OF THE AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS AND LIMETREE BAY TERMINALS, LLC., WHICH WAS RATIFIED BY THE LEGISLATURE PURSUANT TO ACT NO. 7806. THE PUBLIC FINANCE AUTHORITY IS HAPPY TO REPORT THE FOLLOWING AS IT PERTAINS TO THE LIMETREE BAY TERMINALS, LLC'S OPERATIONS:**

**\*516 PERSONS WERE EMPLOYED AT THE LIMETREE TERMINAL LLC, OF WHICH 497 ARE CONTRACTORS AND 19 ARE EMPLOYEES;**

**\*THE TRUCK RACK FACILITY OPERATION WAS REOPENED ON MAY 19, 2016 OFFERING COMMERCIAL SERVICES TO ST. CROIX FUEL PROVIDERS;**

**\*FUEL PRODUCTS, WHICH ARE SUPPLIED, MARKETED AND SOLD BY GULF OIL, ARE AVAILABLE TO THE TERRITORY AT PRICES EQUAL TO/OR BELOW RETAIL MARKET PRICES THROUGH THE LIMETREE BAY TERMINALS TRUCK RACK;**

**\*AS OF JULY 5, 2016, OF THE TOTAL STORAGE CAPACITY OF 30 MILLION BARRELS, 13 MILLION BARRELS ARE ON-LINE; AND**

**\*LIMETREE CONCESSION FEE PAYMENTS YEAR-TO-DATE ARE \$2,000,000.**

**THE PFA WILL ALSO EXPAND ITS COMPLIANCE ROLE OF THESE PUBLIC-PRIVATE AGREEMENTS BY OCTOBER 2016 WHEN FULL ADMINISTRATION AND MANAGEMENT OF THE RUM COVER-OVER AGREEMENTS WILL BE TRANSFERRED TO THE PFA. CURRENTLY, ADMINISTRATION AND MANAGEMENT OF THE RUM COVER AGREEMENTS IS SPLIT BETWEEN THE OFFICE OF MANAGEMENT AND BUDGET AND THE PFA.**

**BUDGETARY PRIORITIES:**

**THE AUTHORITY'S BOND INDENTURE AGREEMENTS REQUIRE THE AUTHORITY'S BOARD OF DIRECTORS TO APPROVE AN ADMINISTRATIVE BUDGET ANNUALLY, WHICH MUST BE USED TO ASSURE THE AUTHORITY'S COMPLIANCE WITH ALL COVENANTS ENTERED INTO WITH ITS BOND HOLDERS. THE PFA BOARD OF DIRECTORS TYPICALLY MEETS IN AUGUST TO CONSIDER AND APPROVE THE UPCOMING FISCAL YEAR'S BUDGET BY THE PFA BOARD. THEREFORE, THE FY 2017 BUDGET HAS NOT YET BEEN APPROVED BY THE PFA BOARD. FOR INFORMATIVE PURPOSES, THE AUTHORITY'S FISCAL YEAR 2016**

**OPERATING BUDGET WAS \$6.5 MILLION, WHICH INCLUDED \$500,000 IN OPERATING EXPENDITURES FOR THE OFFICE OF ECONOMIC OPPORTUNITY. THAT UNIT HAS CEASED ALL OPERATIONS AND THE PFA IS IN THE PROCESS OF TRANSFERRING OWNERSHIP AND CONTROL OF THE FEDERAL GRANT FUNDS MANAGEMENT SYSTEM (GFMS) TO THE OFFICE OF MANAGEMENT AND BUDGET.**

**THE PROPOSED FISCAL YEAR 2017 BUDGET WILL BE USED TO OPERATE THE BUSINESS OF THE AUTHORITY, SUCH AS OFFICE EXPENSES, PAYROLL, AS WELL AS ADMINISTRATIVE EXPENSES. FOR FISCAL YEAR 2016, THE TOTAL BUDGET IN THESE PARTICULAR CATEGORIES AMOUNTED TO \$1.5 MILLION, WITH TOTAL EXPENDITURES THROUGH MARCH 31, 2016 OF \$613,000 AND PROJECTED EXPENDITURES THROUGH SEPTEMBER 30, 2016 OF \$1.3 MILLION – RESULTING IN AN ESTIMATED FAVORABLE VARIANCE OF \$200,000.**

**IN ADDITION, COSTS OF PROFESSIONAL SERVICE CONTRACTS FOR ACCOUNTING AND AUDITING SERVICES, FINANCIAL ADVISORS, MUNICIPAL TAX ATTORNEYS, LEGAL ADVISORS, TRUSTEES AND BANK CUSTODY FEES, INVESTMENT ADVISORS, PROJECT EVALUATION, AND UNDERWRITING**

**EXPENSES ARE FUNDED BY THE BOARD OF DIRECTORS. FOR FISCAL YEAR 2016, THE TOTAL BUDGET IN THIS SEGMENT AMOUNTED TO \$4.5 MILLION, WITH TOTAL EXPENDITURES THROUGH MARCH 31, 2016 OF \$2.9 MILLION AND PROJECTED EXPENDITURES THOUGH SEPTEMBER 30, 2016 OF \$5.7 MILLION – RESULTING IN AN ESTIMATED UNFAVORABLE VARIANCE OF \$1.2 MILLION. THE UNFAVORABLE PROJECTION IS DUE TO THE HIGH LEGAL FEES WITH RESPECT TO THE BUCHANNAN INGERSOLL LITIGATION CASE AND ALSO TO PRIOR YEAR PROFESSIONAL SERVICES INVOICES THAT OVERLAPPED INTO FY 2016.**

**THE PFA BUDGET IS UNDERWRITTEN BY A CONTRIBUTION FROM THE INTERNAL REVENUE MATCHING FUND AND PARTIALLY FROM THE PFA’S PROJECT/ADMINISTRATION FUND WHICH IS FUNDED SOLELY FROM FEES COLLECTED UPON THE CLOSING OF BOND FINANCINGS.**

**FISCAL YEAR 2017 GOALS AND OBJECTIVES:**

**DURING FISCAL YEAR 2017, THE AUTHORITY WILL SEEK TO:**

- 1. TRANSFER OWNERSHIP OF THE FEDERAL GRANT FUNDS MANAGEMENT SYSTEM (GFMS) TO THE OFFICE OF MANAGEMENT AND BUDGET; INCLUDING ALL NECESSASRY**

**TRAINING, POLICIES, PROCEDURES AND RECOMMENDATIONS SURROUNDING HUMAN CAPITAL ACQUISITION AND/OR DEVELOPMENT;**

- 2. FULLY AUTOMATE COMPLIANCE AND CONTINUING DISCLOSURE REQUIREMENTS ACROSS VARIOUS BUSINESS LINES (I.E. BONDS, RUM COMPANIES AND LIMETREE BAY TERMINALS) WITHIN THE PFA'S SHAREPOINT SYSTEM;**
- 3. DEVELOP A STRUCTURED INVESTMENT CRITERIA TO SIGNIFICANLTY ENHANCE THE INVESTMENT RETURNS OF EXCESS CAPITAL FUNDS; AND**
- 4. STREAMLINE AND STANDARDIZE THE STRUCTURE OF CERTAIN POLICIES AND PROCEDURES FOR ORGANIZATIONAL UNITS OWNED BY THE PFA.**

**MR. CHAIRMAN, THIS CONCLUDES MY PRESENTATION FOR THE PFA'S FY2017 BUDGET REVIEW. THANK YOU FOR ALLOWING US THE OPPORTUNITY TO APPEAR TODAY BEFORE THIS COMMITTEE. WE ARE NOW AVAILABLE TO ANSWER YOUR QUESTIONS.**