MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Places US Virgin Islands' $1.2B Matching Fund Revenue Bonds on Review, Direction Uncertain

Global Credit Research - 06 Oct 2017

New York, October 06, 2017 -- Summary Rating Rationale

Moody's Investors Service has placed on review with direction uncertain the ratings of the US Virgin Islands' four liens of matching fund revenue bonds, issued through the Virgin Islands Public Finance Authority, affecting approximately $1.2 billion in outstanding debt. The ratings placed on review are: Senior Lien Bonds Caa1; Subordinate Lien Bonds Caa1; Subordinated Indenture (Diageo) Bonds Caa2; and Subordinated Indenture (Cruzan) Bonds Caa2. The placement of these ratings on review is prompted by the Virgin Islands government's extremely weak financial and liquidity condition prior to the recent hurricanes, the likely negative effect of the hurricanes on the government's finances and liquidity, and the limited amount of available financial and operating information, both before and after the storms.

The matching fund revenue bonds are secured by remittances to the Virgin Islands government from the US government of excise taxes collected on rum produced in the territory and exported to the US. The matching fund revenues are currently paid directly by the US Treasury to the trustee. This mechanism, however, has not been tested in a stress situation in which the government attempts to divert pledged revenue for general government purposes. In addition, the matching fund revenue bonds would likely be included in any attempt to restructure the government's debt.

Our review will focus on both: (1) an assessment of the government's financial condition and the risks it poses to the matching fund revenue bonds, and (2) an evaluation of whether the available information is sufficient to maintain these ratings going forward. Possible rating actions could include confirmation, downgrade, or withdrawal of the ratings on the bonds.

Methodology

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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