

## NEW ISSUE — FULL BOOK ENTRY

In the opinion of Rogers & Wells, Bond Counsel, under existing statutes and court decisions, (i) interest on the Series 1992 A Bonds is not included in gross income of the owners thereof for Federal and United States Virgin Islands income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) such interest will not be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however, is included in the adjusted current earnings of a corporation for purposes of computing the alternative minimum tax imposed on corporations. The opinions expressed in clause (i) of the preceding sentence are subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 1992 A Bonds in order that interest thereon be (or continue to be) excluded from gross income. In the opinion of Rogers & Wells, Bond Counsel, under existing statutes, interest on the Series 1992 A Bonds is exempt from personal income taxes imposed by any state, other territory or possession of the United States or any political subdivision thereof, or by the District of Columbia. See "TAX EXEMPTION — Series 1992 A Bonds."

Interest on the Series 1992 B Bonds will be includable in gross income of the owners for Federal and United States Virgin Islands income tax purposes. In the opinion of Rogers & Wells, Bond Counsel, under existing statutes, interest on the Series 1992 B Bonds is exempt from personal income taxes imposed by any state of the United States or any political subdivision thereof, or by the District of Columbia. See "TAX EXEMPTION — Series 1992 B Bonds" herein.

**\$232,740,000**  
**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**Revenue Refunding Bonds**  
**(Virgin Islands General Obligation/Matching Fund Loan Notes)**  
**\$215,125,000 Series 1992 A**  
**\$17,615,000 Series 1992 B (Taxable)**

**Dated: June 15, 1992**

**Due: October 1, as shown below**

The proceeds of the Revenue Refunding Bonds (Virgin Islands General Obligation/Matching Fund Loan Notes) Series 1992 A and Series 1992 B (Taxable) (collectively, the "Bonds") will be used to advance refund the currently outstanding Revenue Bonds (Virgin Islands General Obligation/Matching Fund Loan Note) Series 1989 A and Series 1989 B (collectively, the "1989 Bonds") of the Virgin Islands Public Finance Authority (the "Authority"). The Bonds will be secured by two general obligation matching fund loan notes issued by the Government of the Virgin Islands (the "Government Loan Notes") pursuant to an Amended and Restated Loan Agreement dated as of June 1, 1992 between the Authority and the Government of the Virgin Islands. The Bonds will be issued under and secured by an Indenture of Trust dated as of June 1, 1992 (the "Indenture") between the Authority and United States Trust Company of New York, as trustee (the "Trustee").

The Bonds will constitute special and limited obligations of the Authority payable solely from and secured by a pledge of the Trust Estate including Revenues (as defined in the Indenture) of the Authority derived from the payment of principal and interest on the Government Loan Notes and a Debt Service Reserve Fund.

The Bonds shall be subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS—Redemption."

The Indenture does not permit the issuance of additional bonds on a parity with the Bonds.

THE BONDS HAVE NOT BEEN RATED BY ANY RATING AGENCY, AND NO SUCH RATING HAS BEEN APPLIED FOR BY THE AUTHORITY.

THE BONDS WILL NOT BE SECURED BY A LETTER OF CREDIT, A MUNICIPAL BOND INSURANCE POLICY OR ANY OTHER GUARANTY OF A FINANCIAL INSTITUTION OR CREDIT ENHANCEMENT. THE REVENUES PLEDGED TO PAY DEBT SERVICE ON THE BONDS ARE DERIVED FROM THE GOVERNMENT LOAN NOTES, WHICH ARE FULL FAITH AND CREDIT GENERAL OBLIGATIONS OF THE GOVERNMENT OF THE VIRGIN ISLANDS. THE GOVERNMENT LOAN NOTES ARE FURTHER SECURED BY A PLEDGE OF MATCHING FUNDS REVENUES. SUCH PLEDGE OF MATCHING FUND REVENUES TO THE GOVERNMENT LOAN NOTES IS SUBJECT TO A PRIOR PLEDGE TO SECURE INDEBTEDNESS OF THE GOVERNMENT OF THE VIRGIN ISLANDS AS DESCRIBED HEREIN. SEE, "SECURITY FOR THE BONDS."

THE BONDS SHALL UNDER NO CIRCUMSTANCES CONSTITUTE A GENERAL OBLIGATION OF THE AUTHORITY, THE UNITED STATES VIRGIN ISLANDS OR OF THE UNITED STATES OF AMERICA NOR SHALL THE BONDS BE EVIDENCE OF A DEBT OF THE UNITED STATES OF AMERICA OR OF THE UNITED STATES VIRGIN ISLANDS NOR SHALL THE UNITED STATES OF AMERICA OR THE UNITED STATES VIRGIN ISLANDS BE LIABLE THEREON. THE AUTHORITY HAS NO TAXING POWER.

The Bonds will bear interest at the rates set forth below, payable semiannually on April 1 and October 1, commencing on October 1, 1992, and will be issuable as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers shall acquire beneficial interests in the Bonds in the principal amounts of \$5,000 and integral multiples thereof, in book-entry form only. Purchasers of the Bonds will not receive physical delivery of bond certificates. The Bonds will not be transferable or exchangeable, except for transfer to another nominee of DTC or otherwise as described herein. So long as Cede & Co. is registered owner of the Bonds, interest and principal on the Bonds are payable by the Trustee, as Paying Agent, to Cede & Co. as nominee of DTC. See "DESCRIPTION OF THE BONDS — DTC and Book-Entry" herein.

### MATURITY SCHEDULE

#### Series 1992 A Bonds

**\$36,950,000 Serial Bonds — Price: 100%**

<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>
October 1, 1996	\$4,485,000	6.25%	October 1, 2000	\$5,535,000	6.80%
October 1, 1997	4,705,000	6.50	October 1, 2001	5,845,000	6.90
October 1, 1998	4,960,000	6.60	October 1, 2002	6,180,000	7.00
October 1, 1999	5,240,000	6.70			

**\$178,175,000 7.25% Term Bonds Maturing October 1, 2018 — Price: 100%**  
(Plus Accrued Interest)

#### Series 1992 B (Taxable) Bonds

**\$17,615,000 7.50% Term Bonds Maturing October 1, 1995 — Price: 100%**  
(Plus Accrued Interest)

The Bonds are offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of legality by Rogers & Wells, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Battle Fowler, New York, New York and Bernard Van Sluytman, Esq., St. Thomas, United States Virgin Islands. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about July 8, 1992.

**Bear, Stearns & Co. Inc.**

**Artemis Capital Group, Inc.**  
**Dillon, Read & Co. Inc.**

**Charles A. Bell Securities Corp.**  
**Merrill Lynch & Co.**

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**Government House**  
**21-22 Kronprindsens Gade**  
**Charlotte Amalie**  
**St. Thomas, United States Virgin Islands 00802**

**BOARD OF DIRECTORS**

The Honorable Alexander A. Farrelly, Governor - Chairman  
Rudolph Krigger, Commissioner of Finance - Executive Director  
Jose George, Director of the Office of Management and Budget - Secretary  
David O'Connell, St. Thomas/St. John Representative  
Franelle Gerard, St. Croix Representative

**TRUSTEE**

United States Trust Company  
of New York  
New York, New York

**BOND COUNSEL**

Rogers & Wells  
New York, New York

**FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Philadelphia, Pennsylvania

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**OFFICIAL STATEMENT**  
**\$232,740,000**  
**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**Revenue Refunding Bonds**  
**(Virgin Islands General Obligation/Matching Fund Loan Notes)**  
**\$215,125,000 Series 1992 A**  
**\$17,615,000 Series 1992 B (Taxable)**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and appendices, is to furnish certain information concerning the Virgin Islands Public Finance Authority (the "Authority") and the sale and delivery of its Revenue Refunding Bonds (Virgin Islands General Obligation/Matching Fund Loan Notes), Series 1992 A (the "Series 1992 A Bonds") in the aggregate principal amount of \$215,125,000 and the Series 1992 B (the "Series 1992 B Bonds") in the aggregate principal amount of \$17,615,000 (the Series 1992 A Bonds and the Series 1992 B Bonds are collectively referred to herein as the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of June 1, 1992 (the "Indenture"), between the Authority and United States Trust Company of New York, as trustee (together with any appointed successor trustee, the "Trustee"). The Bonds are being issued pursuant to the Virgin Islands Revised Organic Act of 1954, 48 U.S.C.A. 1574-1574c (West 1987) (the "Revised Organic Act"), 1988 United States Virgin Islands Act No. 5365 of the Legislature of the Virgin Islands and other applicable law.

All capitalized terms used without definition herein shall have the meaning given such terms in the Glossary of Terms which is attached to this Official Statement as Appendix A. The financial information respecting the United States Virgin Islands (the "Virgin Islands") contained in this Official Statement has been furnished by the Government of the Virgin Islands from its internal records, the Authority and other sources which are believed to be reliable. Financial information relating to the results of operations of the Government of the Virgin Islands to date has not been reviewed or audited by independent accountants.

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**

**Purposes and Powers**

The Authority was created by 1988 United States Virgin Islands Act No. 5365 of the Legislature of the Virgin Islands (the "Legislature") as a public corporation and autonomous governmental instrumentality for the purposes of aiding the Government of the Virgin Islands in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. The organizational meeting of the Authority occurred on December 5, 1988. Under its enabling legislation, the 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 of the Virgin Islands or any agency, authority or instrumentality thereof, (iv) to establish one or more revolving loan funds with the proceeds of bonds issued by the Authority or issued by the Government of the Virgin Islands or any agency, authority or instrumentality thereof, (v) to invest its funds and to arrange for the investment of the funds of the Government of the Virgin Islands or any agency, authority or instrumentality thereof, (vi) to enter into

contracts and agreements with the Government of the United States, the Government of the Virgin Islands and any agency, authority or political subdivision thereof, (vii) to make, modify and repeal by-laws, rules and regulations, (viii) to acquire, sell, lease, mortgage, pledge, dispose of or encumber property or interests therein, and (ix) to sue and be sued.

**Management**

The powers of the Authority are exercised by a Board of Directors (the "Board of Directors") consisting of five members. The Governor of the Virgin Islands, the Commissioner of Finance and the Director of the Office of Management and Budget of the Virgin Islands, are members and serve ex-officio. The two remaining members are appointed by the Governor of the Virgin Islands with the advice and consent of the Legislature and represent the private sector. Of these two members, one must be a resident of the District of St. Thomas/St. John and one must be a resident of the District of St. Croix. Both must be experienced in the area of municipal finance. The Governor of the Virgin Islands serves as Chairman of the Board of Directors.

The following is a list of the current Board of Directors, with their official posts or, for private sector representatives, their island of residency, and date of expiration of their current term on the Board of Directors. The Governor of the Virgin Islands, the Commissioner of Finance and the Director of the Office of Management and Budget serve terms which are coincident with their terms in such offices. The Directors who represent the private sector serve 4-year terms.

<u>Name</u>	<u>Residency/Government Post or Profession</u>	<u>Term Expiration</u>
Hon. Alexander A. Farrelly, Chairman . . .	Governor of the Virgin Islands	---
Rudolph Krigger, Executive Director . . . . .	Commissioner of Finance	---
Jose George, Secretary . . . . .	Director of the Office of Management and Budget	---
Frandelle Gerard . . . . .	District of St. Croix; Insurance Agent	1993
David O'Connell . . . . .	District of St. Thomas/St. John; Certified Public Accountant	1993

Since its creation, the Authority has been involved in programs designed to aid the Government in raising capital for essential public projects. The proceeds of the Series 1989 B Bonds, in the amount of \$70,000,000, were deposited in a Government Construction Fund and Authority Revolving Loan Fund and are available to make loans and grants to the Government and its authorities and agencies for the purpose of financing projects approved by the Legislature or otherwise authorized by law. Approximately \$57.3 million are on deposit in the Funds and have been committed to specific public projects. To date, the proceeds of loans and grants made from the Funds have been used for a variety of public projects, including low to moderate income housing infrastructure construction, interim financing for utility capital projects, and hurricane relief projects. On November 30, 1989, the Authority issued its Highway Revenue Bonds (Transportation Trust Fund), Series 1989 in the aggregate principal amount of \$29,240,000, for the purpose of road and highway construction and repair. In February 1990, the Authority created its Bond Proceeds Management Program. This program provides the Government and any agency, instrumentality, commission, authority or political subdivision of the United States Virgin Islands (other than the Virgin Islands Government Employees Retirement System) assistance with the

investment of and accounting for bond proceeds in compliance with the arbitrage and rebate requirements of the Internal Revenue Code, as amended. To date, the Government of the Virgin Islands, the Authority and the Virgin Islands Water and Power Authority have participated in this program. Through this program the Authority is responsible for the management of approximately \$93,000,000.

## **THE PLAN OF FINANCE**

### **General**

The Bonds are being issued to refund all of the Authority's currently outstanding Revenue Bonds (Virgin Islands General Obligation/Matching Fund Loan Note) Series 1989 A and Series 1989 B (collectively, the "1989 Bonds"). All of the proceeds received by the Authority from the sale of the Bonds, other than accrued interest and amounts required to pay certain costs of issuance, will be transferred to Citibank, N.A., acting as Escrow Agent under an Escrow Agreement dated as of June 1, 1992 between the Authority and Citibank, N.A., as Escrow Agent. See, "SOURCES AND USES OF FUNDS." Accrued interest, if any, shall be deposited in the Bond Fund created under the Indenture. Simultaneously with the transfer of the Bond proceeds to the Escrow Agent, Citibank, N.A. as Trustee for the 1989 Bonds (the "1989 Trustee") will release to the Authority the Series 1989 A Loan Note and the Series 1989 B Loan Note (collectively, the "1989 Notes") securing the 1989 Bonds and the monies held in the Debt Service Fund and the Debt Service Reserve Fund created under the Indenture of Trust (the "1989 Indenture") dated as of August 1, 1989, as supplemented as of September 1, 1989, by and between the Authority and the 1989 Trustee securing the 1989 Bonds. The Authority will deposit the monies from the Debt Service Fund held under the 1989 Indenture with the Trustee who will in turn deposit such monies into the Bond Fund created under the Indenture (other than amounts payable to Marine Midland Bank, N.A., the provider of credit enhancement with respect to the 1989 Bonds for fees in arrears, and expenses). The Authority will deposit the monies from the Debt Service Reserve Fund held under the 1989 Indenture with the Trustee who will in turn deposit such monies into the Debt Service Reserve Fund created under the Indenture. In connection with the foregoing transaction, the Government of the Virgin Islands will execute two new general obligation matching fund loan notes (the "Government Loan Notes") to the Authority in exchange for the 1989 Notes which will obligate the Government of the Virgin Islands to pay amounts sufficient to enable the Authority to make debt service payments on the Bonds.

### **Funding of Escrow Agreement**

The funds necessary to refund the Authority's 1989 Bonds will be held under the Escrow Agreement as cash or applied to the purchase of the Escrow Obligations consisting of government securities, including government securities issued or held in book-entry form on the books of the United States Department of Treasury, which shall mean any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any federal agency to the extent those obligations are unconditionally guaranteed by the United States of America, and any certificates or any other evidences of an ownership interest in those obligations of, or unconditionally guaranteed by, the United States of America or in specified portions of those obligations (which may consist of the principal of, or interest on, those obligations); except that those government securities shall not be subject to redemption prior to their maturity other than at the option of the holder thereof. Such Escrow Obligations are scheduled to mature

at such times and in such amounts and bear interest at such rates so that sufficient money will be available to pay, when due, the principal of, redemption premium, if any, and interest on the 1989 Bonds. The Authority expects to redeem \$123,625,000 aggregate principal amount of the Series 1989 A Bonds and \$40,575,000 aggregate principal amount of the Series 1989 B Bonds on October 1, 2000 at a redemption price of 101% (expressed as a percentage of the principal amount redeemed).

The mathematical accuracy of the computations of the maturing principal and interest earned on the Escrowed Obligations to be purchased with the proceeds of the Bonds and held pursuant to the Escrow Agreement to provide for the payment of the principal of, redemption premium, if any, and interest due and to be due on the 1989 Bonds, will be independently verified by Ernst & Young, independent certified public accountants. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS." The 1989 Bonds will be defeased pursuant to the terms of the 1989 Indenture and the holders of 1989 Bonds will not have a legal right to the Government Loan Notes pledged to secure the Bonds. See "SECURITY FOR THE BONDS - Government Loan Notes."



## SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Bonds by the Authority are to be allocated as follows:

**Sources:**

Principal Amount of 1992 Series A Bonds . . . . .	\$215,125,000.00
Principal Amount of 1992 Series B Bonds . . . . .	17,615,000.00
Accrued Interest . . . . .	1,067,945.90
Amounts Released From 1989 Debt Service Reserve Fund . . . . .	<u>19,643,551.71</u>
 Total . . . . .	 <u>\$253,451,497.61</u>

**Uses:**

Aggregate Deposits to Escrow Fund . . . . .	\$228,487,506.33
Deposit to Debt Service Reserve Fund . . . . .	19,994,425.00
Underwriting Fee . . . . .	3,439,172.02
Other Issuance Expenses . . . . .	462,448.36
Accrued Interest . . . . .	<u>1,067,945.90</u>
 Total . . . . .	 <u>\$253,451,497.61</u>

## DESCRIPTION OF THE BONDS

### General

The Bonds will be dated June 15, 1992 and will bear interest at the rates and will mature on the dates set forth on the cover of this Official Statement. Interest on the Bonds will be payable on April 1 and October 1 of each year, commencing on October 1, 1992. The Bonds are subject to redemption at the times and in the manner set forth below in "Redemption." Pursuant to the Indenture, the Authority has appointed the Trustee as the Paying Agent. The Bonds are issuable in the denomination of \$5,000, or any integral multiple thereof, without coupons, for each maturity.

### Redemption

*Optional Redemption.* The Series 1992 A Bonds maturing on or before October 1, 2002 shall not be subject to optional redemption. The Series 1992 A Bonds maturing on October 1, 2018 shall be subject to redemption, at the option of the Authority, prior to their stated maturity, on or after October 1, 2002, in whole or in part, at any time and in such order of maturity as the Authority shall determine, and otherwise by lot within a maturity, from any funds available therefor, at the respective Redemption Prices (expressed as a percentage of the principal amount redeemed) set forth in the table below, together with the interest accrued on the principal amount redeemed to the date fixed for redemption.

<b><u>Redemption Period</u></b> <b><u>(both dates inclusive)</u></b>	<b><u>Redemption Price</u></b>
October 1, 2002 through September 30, 2003	102 %
October 1, 2003 through September 30, 2004	101 %
October 1, 2004 and thereafter	100 %

The Series 1992 B Bonds maturing on October 1, 1995 shall be subject to redemption, at the option of the Authority, prior to their stated maturity, on or after April 1, 1995, in whole or in part, at any time as the Authority shall determine, and otherwise by lot within a maturity, from any funds available therefor, at the Redemption Price of 105 % (expressed as a percentage of the principal amount redeemed), together with the interest accrued on the principal amount redeemed to the date fixed for redemption.

*Mandatory Sinking Fund Redemption.* The Series 1992 A Bonds maturing on October 1, 2018 are subject to redemption in part on each October 1, beginning October 1, 2003 by operation of mandatory Sinking Fund Installment requirements, required by the Indenture to be on deposit on October 1, in the years and the amounts set forth below, at a redemption price equal to the principal amount thereof, together with the interest accrued thereon to the date fixed for redemption:

**Mandatory Sinking Fund Redemption Principal Amount**  
**Series 1992 A Bonds Maturing October 1, 2018**

<u>Date</u>	<u>Amount</u>
October 1, 2003	\$6,545,000
October 1, 2004	6,950,000
October 1, 2005	7,360,000
October 1, 2006	7,810,000
October 1, 2007	8,280,000
October 1, 2008	9,325,000
October 1, 2009	9,905,000
October 1, 2010	10,525,000
October 1, 2011	11,185,000
October 1, 2012	11,885,000
October 1, 2013	12,615,000
October 1, 2014	13,400,000
October 1, 2015	14,225,000
October 1, 2016	15,110,000
October 1, 2017	16,035,000
October 1, 2018*	17,020,000

The Series 1992 B Bonds maturing on October 1, 1995 are subject to redemption in part on each October 1, beginning October 1, 1992, by operation of mandatory Sinking Fund Installment requirements, required by the Indenture to be on deposit on October 1, in the years and the amounts set forth below, at a redemption price equal to the principal amount thereof, together with the interest accrued thereon to the date fixed for redemption:

**Mandatory Sinking Fund Redemption Principal Amount**  
**Series 1992 B Bonds Maturing October 1, 1995**

<u>Date</u>	<u>Amount</u>
October 1, 1992	\$5,750,000
October 1, 1993	3,710,000
October 1, 1994	3,950,000
October 1, 1995*	4,205,000

*Purchase of Bonds.* Pursuant to the Indenture, the Trustee may purchase Bonds on the open market whenever a redemption would otherwise occur, at the direction of the Authority, at such price not to exceed the principal of, and redemption premium, if any, on such Bonds which would be payable on the

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\* Stated Maturity

next redemption date. Some open market purchases may be made from the amounts accumulated in the Bond Fund (as defined herein) with respect to any Sinking Fund Installment requirements.

*Selection; Notice of Redemption.* In the event of any redemption of the Bonds, if less than all the Bonds of a maturity are to be called for redemption, the Bonds of such maturity to be redeemed will be selected by lot except that the Authority may select the maturities to which any optional redemption of Bonds will be applied. Notice of any such redemption will be mailed at least once not more than 60 nor less than 30 days prior to the date fixed for the redemption thereof, to each registered holder of the Bonds. The Trustee, so long as a book-entry method is used for the Bonds, will send any such notice of redemption only to DTC.

### **DTC and Book-Entry**

The Bonds will be available initially only in book-entry form. Purchasers of the Bonds will not receive certificates representing their interest in the Bonds. One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such issue.

DTC will act as Securities Depository for the Bonds. The ownership of one or more fully registered Bonds for each maturity in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its Participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in the accounts for the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Purchases of Bonds under the DTC system may be made through brokers and dealers who are or act through DTC Participants. Upon such purchase, the DTC Participants will receive a credit balance on the records of DTC. The ownership interest of the actual purchaser of each Bond (the "Beneficial Owner") will be recorded through the records of the DTC Participant or Indirect Participant. DTC Participants and Indirect Participants are required to provide Beneficial Owners with a written confirmation of their purchase containing details of the Bonds acquired. Transfers of ownership interests in the Bonds will be accomplished by book entries made by DTC and, in turn by the DTC Participants who act on behalf of the Beneficial Owners and Indirect Participants. **BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF BONDS REPRESENTING THEIR OWNERSHIP INTEREST IN THE BONDS AND WILL NOT BE, AND FOR THE PURPOSES OF REGISTRATION AND PAYMENT WILL NOT BE OR BE CONSIDERED TO BE, OWNERS THEREOF UNDER THE INDENTURE.**

Payments of interest, principal and redemption premium, if any, on the Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Bonds. The current practice of DTC is to credit

the accounts of the DTC Participants immediately upon receipt of moneys in accordance with their respective holdings shown on the records of DTC. If appropriate, DTC Participants will forward such payments to Indirect Participants. Payments by DTC Participants or Indirect Participants to Beneficial Owners will be in accordance with standing instructions and customary practices such as those which are now the case for municipal securities held in bearer form or registered in "street name" for the accounts of customers and will be the responsibility of DTC Participants and Indirect Participants and not the responsibility of DTC, the Trustee, the Paying Agent or the Authority, subject to any statutory and regulatory requirements may be in effect from time to time.

The Trustee, the Paying Agent and the Authority, so long as a book-entry system is used for the Bonds, will send any notice of redemption or other notices only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of such Bonds called for redemption or of any other action promised on such notice. Redemption of portions of the Bonds by the Authority will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the Authority, the Trustee or the Paying Agent.

**THE AUTHORITY AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSON FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO, OR THE PROVIDING OF NOTICE FOR, THE DTC PARTICIPANTS, INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES OR WITH RESPECT TO MAINTENANCE, SUPERVISION OR REVIEWING ANY RECORDS RELATING TO BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE BONDS FOR REDEMPTION.**

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes.

Beneficial Owners are to receive a written confirmation of their purchases detailing the terms of the Bonds acquired. Transfers of ownership interests in the Bonds are to be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except as described below.

For every transfer and exchange of the Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed thereto.

DTC may determine to discontinue providing its service with respect to the Bonds at any time by giving notice to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law. The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC (or a successor securities depository) with respect to the Bonds if the

Authority determines that a continuation of the book-entry system is not in the best interests of the Beneficial Owners of the Bonds. The Authority undertakes no obligation to investigate matters that would enable the Authority to make such determination.

The Authority, the Underwriters, and the Trustee have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership of the Bonds.

The Authority cannot and does not give any assurances that DTC, Participants or others will distribute payments of Debt Service on the Bonds paid to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Underwriters believe to be reliable, but the Authority and the Underwriters take no responsibility for the accuracy thereof.

## **SECURITY FOR THE BONDS**

### **Special Obligations**

The Bonds are secured by certain funds established by the Indenture and by the Government Loan Notes, which are general obligations of the Government of the Virgin Islands and further secured by a pledge of Matching Fund Revenues.

The Bonds are limited and special obligations of the Authority. Principal, premium, if any, and interest on the Bonds are payable solely from the proceeds of repayment of the Government Loan Notes and amounts pledged pursuant to the Indenture as described herein.

No additional bonds of the Authority may be issued under the Indenture.

**THE BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE AUTHORITY, OF THE GOVERNMENT OF THE VIRGIN ISLANDS OR OF THE UNITED STATES OF AMERICA. THE AUTHORITY HAS NO TAXING POWER. THE REVENUES PLEDGED TO PAY DEBT SERVICE ON THE BONDS ARE DERIVED FROM THE GOVERNMENT LOAN NOTES WHICH ARE FULL FAITH AND CREDIT GENERAL OBLIGATIONS OF THE GOVERNMENT OF THE VIRGIN ISLANDS. THE GOVERNMENT LOAN NOTES ARE FURTHER SECURED BY A PLEDGE OF MATCHING FUND REVENUES. SUCH PLEDGE OF MATCHING FUND REVENUES TO THE GOVERNMENT LOAN NOTES IS SUBJECT TO A PRIOR PLEDGE TO SECURE CERTAIN EXISTING INDEBTEDNESS OF THE GOVERNMENT OF THE VIRGIN ISLANDS. THE GOVERNMENT LOAN NOTES DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE UNITED STATES OF AMERICA, NOR SHALL THE UNITED STATES OF AMERICA BE LIABLE THEREON.**

## **Trust Estate**

The lien of the Trustee under the Indenture is for the ratable and equal benefit of the owners of the Bonds. Pursuant to the Indenture, the Bonds are secured by the Trust Estate which includes (i) monies on deposit from time to time in all funds and accounts established pursuant to the Indenture (except the Rebate Fund and the Surplus Fund) including the investments, if any, thereof, and all income and proceeds derived from such investments; (ii) the Government Loan Notes delivered to the Authority by the Government of the Virgin Islands, and the proceeds and collections therefrom; (iii) all right, title and interest of the Authority in the Loan Agreement; and all amendments, modifications and renewals thereof, reserving the rights providing that notices and other communications be given to the Authority; (iv) all right, title and interest of the Authority in the Revenues; and (v) any and all other property or security interest therein, of every name and nature and from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, conveyed, transferred, mortgaged, pledged and assigned as and for additional security under the Indenture, by the Authority or anyone in its behalf pursuant to the Indenture or with its consent, to the Trustee, which is authorized under the Indenture to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Indenture.

## **Government Loan Notes**

The Government of the Virgin Islands will be obligated under the Government Loan Notes to make payments to the Authority in respect of the Government Loan Notes in amounts sufficient to pay all principal, premium, if any, and interest on the Bonds when due. The Government Loan Notes have been issued in anticipation of the receipt of Matching Fund Revenues over the full term of the Government Loan Notes, which revenues are anticipated to be in excess of the amount necessary to pay all the principal of, premium, if any, and interest on, the Government Loan Notes. However, no assurances can be given as to the sufficiency of Matching Fund Revenues for such purpose. For a description of Matching Fund Revenues, see "Matching Fund Revenues."

The pledge of Matching Fund Revenues by the Government of the Virgin Islands under the Government Loan Notes is subordinate to a prior pledge of Matching Fund Revenues which the Government of the Virgin Islands has made in connection with certain Outstanding Obligations described below under "Matching Fund Revenues."

In addition, the full faith and credit and taxing power of the Government of the Virgin Islands is pledged to the payment of principal, premium, if any, and interest on the Government Loan Notes. The Government Loan Notes will rank on a parity with all other general obligation indebtedness of the Government of the Virgin Islands. See "INDEBTEDNESS." The Government Loan Notes do not constitute general obligations of the United States of America, nor shall the United States of America be liable thereon.

## **Additional Subordinated Government Obligations**

Pursuant to the provision of Public Law 94-392, as amended, any bonds, notes or other evidences of indebtedness issued by the Government subsequent to the issuance of the Government Loan Notes and secured by Matching Fund Revenues shall by law have a lien on Matching Fund Revenues subordinate to the Government Loan Notes. In addition, under the Loan Agreement, the Government has covenanted that it shall not issue any bonds, notes or other evidences of indebtedness, other than the Government

Loan Notes and the Special Tax Bonds, secured by Matching Fund Revenues ("Additional Subordinated Government Obligations"), nor create, or cause to be created, any lien or charge on Matching Fund Revenues, unless the average Matching Fund Revenues received by the Government in the three Fiscal Years prior to the Fiscal Year of the proposed date of issuance of such Additional Subordinated Government Obligations is at least 120% of the maximum aggregate amount of annual principal of and interest on the Government Loan Notes, the Special Tax Bonds, any outstanding Additional Subordinated Government Obligations and any proposed Additional Subordinated Government Obligations to be issued by the Government (in each case specifically without regard to any letter of credit or other credit enhancement commitments, fees and other obligations) in any twelve-month period after the proposed date of issuance of such Additional Subordinated Government Obligations; provided, however, the Government may issue Additional Subordinated Government Obligations without regard to the above-referenced test if such Additional Subordinated Government Obligations are secured by an additional pledge of revenues of the Government other than Matching Fund Revenues and the average of such revenues collected by the Government for the three fiscal years prior to the Fiscal Year of the proposed date of issuance of such Additional Subordinated Government Obligations is equal to 1.75 times the annual average debt service of the Additional Subordinated Government Obligations; and provided, further, that no Additional Subordinated Government Obligations may be issued if the average Matching Fund Revenues received by the Government in the three Fiscal Years prior to the Fiscal Year of the proposed date of issuance of such Additional Subordinated Government Obligations is less than 100% of the maximum aggregate amount of annual principal and interest on the Government Loan Notes, the Special Tax Bonds, any outstanding Additional Subordinated Government Obligations and any proposed Additional Subordinated Government Obligations to be issued by the Government (in each case specifically without regard to any letter of credit or other credit enhancement commitments, fees and other obligations) in any twelve-month period after the proposed date of issuance of such Additional Subordinated Government Obligations.

### **Matching Fund Revenues**

A primary source of repayment of the Government Loan Notes will be Matching Fund Revenues.

United States Public Law 94-392 ("Public Law 94-392") authorizes the Government of the Virgin Islands to issue bonds or other obligations in anticipation of Matching Fund Revenues to be received from the federal government. Pursuant to Section 28(b) of the Revised Organic Act (reenacted as Section 7652 of the Code), the Secretary of the United States Department of the Treasury is directed to make certain transfers to the Government of the Virgin Islands of certain excise taxes imposed and collected under the internal revenue laws of the United States in any fiscal year on certain products produced in the Virgin Islands and exported to the United States mainland from the United States Virgin Islands. Rum is the principal article presently produced in the United States Virgin Islands and exported to the United States which is subject to Federal excise tax that qualifies for transfer to the Government of the Virgin Islands under the applicable provisions of the Revised Organic Act, as amended, and the Code. From 1951 until the enactment of the Deficit Reduction Act of 1984 (the "DRA"), the Federal excise tax on distilled spirits produced in, or imported into, the United States was \$10.50 per proof gallon. The DRA increased the tax to \$12.50 per proof gallon (subsequently increased to \$13.50 by the Omnibus Budget Reconciliation Act of 1990), but amended Section 7652 of the Code to limit the rate of Federal excise taxes transferred to the Government of the Virgin Islands to the lesser rate of \$10.50 per proof gallon or the actual Federal excise tax imposed under Section 5001(a)(1) of the Code. In order to encourage the Virgin Islands to raise local revenues, the amount required to be remitted to the Government of the



Virgin Islands by the Secretary of the Treasury pursuant to the applicable excise tax transfer provisions, is limited to an amount no greater than the total amount of local duties, taxes and fees collected by the Government of the Virgin Islands in the applicable fiscal year. As a result, the term "Matching Fund Revenues" is used to denote these payments. In recent years, because such revenue collections by the Government of the Virgin Islands have substantially exceeded such federal excise tax collections, the Government of the Virgin Islands has been the recipient of the full amount of such excise tax collections permitted under Section 28(b) of the Revised Organic Act, as amended, and Section 7652 of the Code. Prepayments of estimated Matching Fund Revenues for a fiscal year are made to the Government of the Virgin Islands prior to September 30 immediately preceding such fiscal year. This prepayment is subject to adjustment for the amount of revenue actually collected by the Government of the Virgin Islands and the actual amount of the above described federal excise taxes collected by the United States Department of Treasury during such fiscal year. Such adjustments are made to the estimated prepayments for the next fiscal year.

Pursuant to the provisions of Public Law 94-392, the pledge of Matching Fund Revenues securing bonds or other obligations of the Government of the Virgin Islands issued after the Government Loan Notes shall be subordinate to the pledge securing the Government Loan Notes. Matching Fund Revenues are currently pledged in respect of payments due on \$28,760,000 of Special Tax Bonds (General Obligation Matching Fund/Hugo Insurance Claims Fund Program) Series 1991 issued by the Government of the Virgin Islands (the "Special Tax Bonds") on April 11, 1991. For a description of the Special Tax Bonds, see Appendix B. In addition, certain bonds of the Government which were economically defeased with the proceeds of the 1989 Bonds continue to hold a prior pledge of Matching Fund Revenues. These defeased bonds (the "Defeased Bonds") which have a final maturity in the year 2008 are entitled to be paid from an escrow fund into which government securities have been deposited in an amount sufficient to pay principal of and interest on the Defeased Bonds as they mature. Although the Defeased Bonds are fully collateralized, in the event of a bankruptcy or insolvency of the Government of the Virgin Islands or an insufficiency of the funds deposited to the escrow fund, the holders of the Defeased Bonds would have claims prior to the Trustee, as holder of the Government Loan Notes, with regard to the receipt of Matching Fund Revenues. The "Special Tax Bonds" and the "Defeased Bonds" are hereinafter referred to as the Outstanding Obligations. The pledge of Matching Fund Revenues to the Government Loan Notes securing the Bonds is subordinate to the pledge securing the Outstanding Obligations.

Upon the issuance of the Bonds, the 1989 Bonds will be defeased and the lien and pledge of the 1989 Notes to the 1989 Bonds will be released and the pledge of Matching Fund Revenues to the 1989 Notes will be released.

**MATCHING FUND REVENUES ARE A PRIMARY SOURCE OF REPAYMENT OF THE GOVERNMENT LOAN NOTES SECURING THE BONDS. MATCHING FUND REVENUES ARE DERIVED FROM CERTAIN EXCISE TAXES PAYABLE ON PRODUCTS, PRINCIPALLY RUM, PRODUCED IN THE UNITED STATES VIRGIN ISLANDS AND IMPORTED INTO THE MAINLAND UNITED STATES. THERE CAN BE NO ASSURANCE THAT VIRGIN ISLANDS RUM PRODUCTION WILL BE MAINTAINED AT LEVELS SUFFICIENT TO GENERATE EXCISE TAXES AND MATCHING FUND REVENUES IN AMOUNTS SUFFICIENT TO PAY THE DEBT SERVICE ON THE GOVERNMENT LOAN NOTES SECURING THE BONDS. SEE "MATCHING FUND REVENUES" AND "THE RUM INDUSTRY".**

At the time of issuance of the Special Tax Bonds, the Government of the Virgin Islands established an escrow fund (the "Special Escrow Agreement") with Citibank, N.A., as special escrow agent (the "Special Escrow Agent"), into which the Matching Fund Revenues are deposited upon receipt to provide for timely payment of said Special Tax Bonds, prior to the release of any excess Matching Fund Revenues to the Government of the Virgin Islands. In furtherance of the pledge of Matching Fund Revenues to the Government Loan Notes securing the Bonds, the Government of the Virgin Islands will enter into an amendment to the Special Escrow Agreement with the Special Escrow Agent which provides that in September of each Fiscal Year upon the written request of the Trustee and prior to the release of any excess Matching Fund Revenues to the Government of the Virgin Islands (but after the application of Matching Fund Revenues to the payment of principal and interest on the Outstanding Obligations, if necessary), the Special Escrow Agent shall transfer Matching Fund Revenues to the Trustee in an amount sufficient to (i) pay debt service payments then due or to become due on the Bonds for October 1 and April 1 of the next Fiscal Year, after taking into account amounts in the Revenue Fund and the Bond Fund deposited to make said payments and any investment earnings thereon; and (ii) fund any existing deficiency in the Debt Service Reserve Fund. After the transfer of Matching Fund Revenues to the Trustee, the Special Escrow Agent will transfer excess Matching Fund Revenues to the Government of the Virgin Islands for other purposes. The Special Escrow Agreement, as amended, will also provide that upon the redemption, defeasance or maturity of the Special Tax Bonds, the Special Escrow Agreement shall stay in effect for the benefit of the Trustee and the owners of the Bonds for so long as the Bonds remain Outstanding.

Pursuant to the provisions of Public Law 94-392, the pledge of Matching Fund Revenues securing bonds or other obligations of the Government of the Virgin Islands issued after the Government Loan Notes shall be subordinate to the pledge securing the Government Loan Notes. Additionally, the Government of the Virgin Islands has covenanted in the Loan Agreement not to issue, while the Bonds are outstanding, any additional bonds, notes or other obligations which would have a lien on Matching Fund Revenues prior to the Government Loan Notes. Other than the pledge of Matching Fund Revenues in respect of the Outstanding Obligations, there are currently no other bonds, notes or other evidences of indebtedness to which Matching Fund Revenues have been pledged by the Government of the Virgin Islands. It is anticipated that Matching Fund Revenues to be received by the Government of the Virgin Islands over the life of the Bonds will be sufficient, together with moneys escrowed for the payment of the Defeased Bonds, and investment earnings thereon, to pay the aggregate principal of and interest on the Government Loan Notes and the Outstanding Obligations. However, no assurances can be given as to the sufficiency of Matching Fund Revenues for such purposes.

#### **Debt Service Reserve Fund**

The Indenture provides for the creation of a Debt Service Reserve Fund, which shall be funded in an amount equal to the Debt Service Reserve Fund Requirement, which is an amount equal to the maximum Annual Debt Service accruing in the then current or a succeeding Bond Year. If at any time amounts on deposit in the Debt Service Reserve Fund are less than the Debt Service Reserve Fund Requirement then in effect, the Indenture provides that monies will be transferred from the Revenue Fund to the Debt Service Reserve Fund as available. See "APPENDIX C-Summary of Certain Provisions of the Indenture of Trust."

## Debt Service Requirements on the Bonds

The following table sets forth the annual debt service requirements on the Bonds.

**VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY**  
**Revenue Refunding Bonds**  
**(Virgin Islands General Obligation/  
Matching Fund Loan Notes)**  
**Series 1992 A**  
**Series 1992 B (Taxable)**  
**Debt Service Requirements**

<u>Year</u>	<u>Principal Amount or Sinking Fund Installment on the Bonds</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
1992	5,750,000	4,921,837.64	10,671,837.64
1993	3,710,000	16,284,425.00	19,994,425.00
1994	3,950,000	16,006,175.00	19,956,175.00
1995	4,205,000	15,709,925.00	19,914,925.00
1996	4,485,000	15,394,550.00	19,879,550.00
1997	4,705,000	15,114,237.50	19,819,237.50
1998	4,960,000	14,808,412.50	19,768,412.50
1999	5,240,000	14,481,052.50	19,721,052.50
2000	5,535,000	14,129,972.50	19,664,972.50
2001	5,845,000	13,753,592.50	19,598,592.50
2002	6,180,000	13,350,287.50	19,530,287.50
2003	6,545,000	12,917,687.50	19,462,687.50
2004	6,950,000	12,443,175.00	19,393,175.00
2005	7,360,000	11,939,300.00	19,299,300.00
2006	7,810,000	11,405,700.00	19,215,700.00
2007	8,280,000	10,839,475.00	19,119,475.00
2008	9,325,000	10,239,175.00	19,564,175.00
2009	9,905,000	9,563,112.50	19,468,112.50
2010	10,525,000	8,845,000.00	19,370,000.00
2011	11,185,000	8,081,937.50	19,266,937.50
2012	11,885,000	7,271,025.00	19,156,025.00
2013	12,615,000	6,409,362.50	19,024,362.50
2014	13,400,000	5,494,775.00	18,894,775.00
2015	14,225,000	4,523,275.00	18,748,275.00
2016	15,110,000	3,491,962.50	18,601,962.50
2017	16,035,000	2,396,487.50	18,431,487.50
<u>2018</u>	<u>17,020,000</u>	<u>1,233,950.00</u>	<u>18,253,950.00</u>
Total	\$232,740,000	\$281,049,867.64	\$513,789,867.64

## **THE GOVERNMENT OF THE VIRGIN ISLANDS**

### **General**

Under the terms of the Revised Organic Act, the Virgin Islands is an unincorporated territory of the United States with separate executive, legislative and judicial branches of government. The legislative power of the Virgin Islands is vested in the Legislature, a unicameral, popularly elected legislature consisting of fifteen members who serve two-year terms. The Legislature has jurisdiction over "all rightful subjects of legislation" not inconsistent with the laws of the United States made applicable to the Virgin Islands.

Executive power resides with a Governor and a Lieutenant Governor who are elected every four years. The Governor is responsible for execution of local laws, administration of all activities of the executive branch and appointment of department heads and other employees. The current Governor of the Virgin Islands is the Honorable Alexander A. Farrelly and the current Lieutenant Governor is the Honorable Derek M. Hodge, both of whom originally succeeded to office on January 1, 1987 and whose current terms expire on January 1, 1995.

Judicial power is vested in the District Court of the Virgin Islands and in the Territorial Court of the Virgin Islands, a court of lower jurisdiction established by local law. The judges for the District Court of the Virgin Islands are appointed by the President of the United States with the advice and consent of the United States Senate and serve for terms of ten years. The Territorial Court judges are appointed by the Governor and confirmed by the Legislature.

As an unincorporated territory of the United States, the Virgin Islands is subject to the power of Congress to make rules and regulations respecting the Virgin Islands, pursuant to Article IV, Section 3 of the United States Constitution.

Residents of the Virgin Islands have been citizens of the United States since 1927. However, apart from express Congressional grants of rights, such as the Bill of Rights in Section 3 of the Revised Organic Act, residency in the Virgin Islands does not carry with it the full range of rights which inhere in citizenship in any of the states.

Residents of the Virgin Islands do not have the right to vote in national elections for the President and Vice President of the United States. The Virgin Islands has an elected delegate to the United States House of Representatives. The delegate is a nonvoting member of the House of Representatives, although he may vote in committees and participate in floor debates.

### **Referendum on Territorial Status**

Pursuant to Act 5712 of the Virgin Islands, referenda relating to the present relationship of the Virgin Islands with the Federal government are scheduled for September 7, October 5, and November 2, 1993. Voters are expected to be presented with seven options grouped into three categories. The first series of options call for complete integration with the United States either through statehood or status as an incorporated territory. The second broad category includes options for continued or enhanced territorial status, which would leave unchanged the Virgin Islands' present status as an unincorporated territory or result in commonwealth status. The third group includes free association and independence.

The referenda were originally scheduled to take place in November 1989, but were delayed by act of the Virgin Islands Legislature in the aftermath of Hurricane Hugo.

The Government of the Virgin Islands will be required to negotiate with the Federal government for the status selected by the majority of the voters in the referenda; however, Congress retains the power to accept, reject, or modify any status selected by the voters of the United States Virgin Islands.

## FINANCIAL MANAGEMENT, BUDGETING AND CONTROLS

### **Budgetary Process**

*General.* The fiscal year of the Government of the Virgin Islands begins on October 1 of each year. The Governor is required to submit to the Legislature an annual budget of capital improvements and operating expenses for the following fiscal year no later than May 31. The annual budget is prepared by the Office of Management and Budget ("OMB") working in conjunction with other government offices and agencies.

The Legislature, in its consideration of the budget for the ensuing fiscal year, may modify or change the submission. The Legislature is obligated to pass a final budget no later than October 1, the first day of the fiscal year. Upon passage by the Legislature, the budget is referred to the Governor, who may eliminate any item by a line item veto but not increase or insert any new item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature may override any veto by the Governor (including any line item veto) by a vote of two-thirds of its members.

If a budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed reappropriated item by item.

Once the budget has been enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor, through the Director of OMB. During any fiscal year in which the resources available to the Government of the Virgin Islands are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenses. The Governor may also make recommendations to the Legislature for new taxes, or any other necessary action to meet the estimated deficiency. It has been the practice of the Director of OMB when making funding adjustments to allot funds in the following order of priority: to the payment of the interest on and amortization requirements for public debt; to the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain and certain commitments to protect the name, credit and good faith of the Government; and to current expenditures in the areas of health, protection, education and welfare.

### **Fund Structure and Accounts**

The Government of the Virgin Islands maintains certain funds pursuant to authority set forth in the United States Virgin Islands Code. Such Government funds are divided into three categories: Governmental Fund Types, Proprietary Fund Types and Fiduciary Fund Types. Although General Fixed Assets and General Long-Term Debt are classified as account groups, these account groups possess the basic characteristics of funds.

Governmental Fund Types include the General Fund, the Special Revenue Funds, the Debt Service and the Capital Projects Funds. The Proprietary Fund Types are composed of the Enterprise Funds and the Internal Service Funds. The Trust and Agency Funds comprise the Fiduciary Fund Types.

The General Fund is the Government's largest fund as it accounts for the operations of the three branches of government. The General Fund accounts for all revenues and receipts not required to be accounted for, or deposited, in other funds and for the major portion of Government expenditures. Tax receipts represent the majority of the General Fund revenues.

### **Basis of Accounting**

The Government of the Virgin Islands recognizes revenues in the Governmental Fund Types when received and expenses when paid. Uncollected revenues are reflected as receivables. Accounts payable are established but not recognized as expenditures until liquidated. Provisions for receivables and payables are established at year end in the report of undesignated fund balance, thereby making the basis of accounting the modified accrual basis. Revenues and expenditures of the General Fund are reported on a cash basis.

Expenditures represent a cash outflow in accordance with the allotment. Encumbrances are employed to record purchase orders, contracts and other commitments so that appropriate amounts of appropriations are reserved to cover future expenditures. Encumbrances outstanding at year end are reported as reservations of fund balances, with the authority to liquidate carried forward with the appropriation. After one year, the Government of the Virgin Islands administratively liquidates outstanding encumbrances. In the Proprietary Fund Types, revenues are accrued.

### **Financial Reporting**

#### *Financial Reporting*

The Authority has produced audited financial statements conforming to Generally Accepted Accounting Principles ("GAAP") since 1989. A copy of the Authority's audited financial statements for Fiscal Year 1990 are attached hereto as Appendix G. The annual reports of the financial operations of the Government of the Virgin Islands, to date, have not been reviewed or audited by independent accountants. A Comprehensive Annual Financial Report ("CAFR") for the Government of the Virgin Islands is available up to September 30, 1986. A CAFR for fiscal year 1987, which is currently in draft form, is projected to be printed by July 1992. The Government of the Virgin Islands has contracted with Ernst & Young to assist in closing general ledgers for Fiscal Year 1988 through Fiscal Year 1991 and converting the financial reports for Fiscal Year 1992 and thereafter to GAAP. CAFRs prepared on a non-GAAP basis for Fiscal Year 1988 through Fiscal Year 1991 are expected by January, 1994. A CAFR prepared in conformity with GAAP for Fiscal Year 1992 is expected by June, 1994. The Government of the Virgin Islands has established an oversight committee to review Ernst & Young's progress on a quarterly basis. The first meeting of the committee was October 1991.

#### *Automated Financial Management System*

Commencing with fiscal year 1989, a portion of the financial operations of the Government has been maintained on a new Financial Management System ("FMS") that incorporated accounts payable, transactional accounting, general ledger and budget software modules. The payroll and personnel management module was implemented as of January 1, 1991. The cash receipts module of FMS was incorporated in October 1991. The Government is in the process of installing additional modules, including human resources and real property billing and collections. The Government intends to continue

to install additional modules of FMS as the needs of the Government expand and the advantages of FMS will benefit a broader cross-section of governmental activities.

The FMS, as incorporated, provides the Government with an on-line, real time interactive system combining cash receipts, accounts payable, payroll, budget and the general ledger system. The FMS has allowed for the merging of budget and accounting, allowing the Government to eliminate the two separate systems that had been utilized, and to significantly improve financial controls over operations. Departmental managers have immediate access to information regarding year to date expenditures and obligations. Authorized funding limitations are centrally controlled under the FMS, and can no longer be overridden at the departmental level.

In addition to improving management control over financial operations, the FMS will enable annual audits of the general ledger to be performed on a timely basis upon completion of the GAAP conversion process.

The installation of FMS has been funded from local resources of the Government of the Virgin Islands and the U.S. Department of the Interior. Technical assistance has been provided by the accounting firm of Ernst & Young and Information Development Consultants, Inc., the software vendor.

## **REVENUES AND EXPENDITURES OF THE GOVERNMENT OF THE VIRGIN ISLANDS**

### **General**

The principal sources of revenues for the Government of the Virgin Islands are: United States federal income taxes (collected locally as Virgin Islands income tax); taxes and fees levied by the Government of the Virgin Islands under its own locally applicable internal revenue laws; federal excise taxes imposed on goods entering the United States from the Virgin Islands and other fees collected by the Federal government (including the Matching Fund Revenues as more fully described below); and customs duties.

The Revised Organic Act sets forth the taxes imposed by the United States Government, the proceeds of which are paid into the Treasury of the Virgin Islands, including: customs duties, the United States income tax (collected locally as the Virgin Islands income tax), any taxes levied by Congress on the inhabitants of the United States Virgin Islands, and quarantine, passport, immigration and naturalization fees collected in the United States Virgin Islands. In addition, the Government of the Virgin Islands has the power to impose local taxes which include real property taxes, excise taxes, gross receipts taxes and hotel room taxes.

### **Matching Fund Revenues**

The Federal excise tax on rum exports from the United States Virgin Islands collected by United States Customs Service upon importation to the United States currently accounts for all of the Matching Fund Revenues. Rum is the principal article presently produced in the United States Virgin Islands and exported to the United States which is subject to Federal excise tax that qualifies for transfer to the Government of the Virgin Islands under Section 28(b) of the Revised Organic Act, as amended, and



Section 7652 of the Code. From 1951 until the enactment of the Deficit Reduction Act of 1984 (the "DRA"), the Federal excise tax on distilled spirits produced in, or imported into, the United States was \$10.50 per proof gallon. The DRA increased the tax to \$12.50 per proof gallon (subsequently increased to \$13.50 by the Omnibus Budget Reconciliation Act of 1990), but amended Section 7652 of the Code to limit the rate of Federal excise taxes transferred to the Government of the Virgin Islands to the lesser rate of \$10.50 per proof gallon or the actual Federal excise tax imposed under Section 5001(a)(1) of the Code. There can be no assurance that the Federal excise tax on distilled spirits will not be reduced or that such taxes will not be eliminated in the future or that there will not be a reduction in the amounts transferred by the United States to the Government of the Virgin Islands. The United States has never reduced the amount of Federal excise taxes transferred to the Government of the Virgin Islands below \$10.50 per proof gallon.

Prepayments of Matching Fund Revenues based on estimates submitted to the Department of the Interior by the Government of the Virgin Islands are made prior to the beginning of each fiscal year. Such payments are subject to adjustment for the amount of revenue actually collected by the Government of the Virgin Islands and the actual amount of the applicable Federal excise taxes collected by the United States during such fiscal year. Adjustments to Matching Fund Revenues based on differences between the Government of the Virgin Islands' estimates and actual collections are debited or credited, as the case may be, against the following year's payments. For a discussion of the rum industry, see "The Rum Industry" below.

The table below shows the Matching Fund Revenues received by the Virgin Islands for the six fiscal years ended September 30, 1992:

**Matching Fund Revenues<sup>(1)</sup>**

**1987-1992**

(amounts in thousands)

<u>Fiscal Year</u>	<u>Matching Fund Revenues</u>
1987	25,841
1988	26,600
1989	29,686
1990	29,151
1991	29,686
1992 <sup>(2)</sup>	28,651

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<sup>(1)</sup> Revenues received for the years indicated reflect periodic adjustments resulting from Federal government audits and changes in the calculation of inventories for prior years.

<sup>(2)</sup> Estimated Matching Fund Revenues for fiscal year 1992 received in September 1991.

Source: Virgin Islands Office of Management and Budget

## The Rum Industry

*General.* More than 3.0 million proof gallons of rum were exported from the Virgin Islands to the United States in 1991, approximately 90% of which was produced by a single privately owned distillery located on St. Croix. Although the distillery incurred approximately \$1.5 million in structural damage as a result of Hurricane Hugo, and the hurricane significantly disrupted rum shipments during September and October of 1989, since December of 1989, rum shipments from the Virgin Islands have generally reached pre-Hurricane Hugo levels and the distillery and shipment facilities have been repaired such that full operational capacity has been restored.

Rum produced in the United States Virgin Islands is exported to the United States mainland in bulk, and sold to local and regional bottlers and rectifiers for sale under a variety of private label and regional brand names, and to certain other bottlers for use in prepared cocktails, liqueurs and drink mixes.

### TOTAL SHIPMENTS OF RUM FROM THE VIRGIN ISLANDS TO THE UNITED STATES

(000s Proof Gallons)

1980	3,595
1981	3,394
1982	3,400
1983	3,228
1984	3,175
1985	2,995
1986	2,919
1987	2,800
1988	3,036
1989	2,595
1990	2,856
1991	3,003

Source: U.S. Department of Commerce and Distilled Spirits Council of the United States, Virgin Islands Rum Industry, Ltd.

According to Jobson's Liquor Handbook (1990), in 1989, rum from the Virgin Islands accounted for 10.7% of rum shipments to the United States. Puerto Rican rums accounted for 85% of total shipments with the remaining 4.3% coming mostly from Caribbean countries. The Federal excise tax on such exports from the Virgin Islands accounts for nearly all of its total Matching Fund Revenues.

Virgin Islands rum enjoys preferential tariff treatment through the exemption from the United States Customs duty on rum imported into the United States. This exemption gives Virgin Islands rum (and Puerto Rican rum which is also not subject to foreign duty) a competitive advantage over foreign produced rum. In 1983, as part of the Caribbean Basin Initiative ("CBI"), the duty on rum imported from certain Caribbean nations was eliminated. Although the resulting reduction in the price of foreign rum to United States customers has not materially adversely affected the United States sales of Virgin Islands rum, it is possible that any future price reductions, coupled with changes in the value of the U.S.

dollar relative to the currencies of other rum-producing Caribbean nations, could result in declines in sales of Virgin Islands rum. Since 1985 there has been a slight increase in imports to the United States mainland of the low-value segment of the bulk rum industry in which the United States Virgin Islands producers compete. This increase is due primarily to the importation under the Caribbean Basin Initiative of rum produced in Barbados.

To protect the fiscal interests of the Virgin Islands and Puerto Rico (which receives transfers of Federal excise taxes on Puerto Rican rum shipped to the United States) from increased competition from CBI producers, the Caribbean Basin Initiative also provides for the transfer to the Governments of the Virgin Islands and Puerto Rico of Federal excise taxes collected on foreign-produced rum by the United States. Payments to the Government of the Virgin Islands of Federal excise taxes collected by the United States on foreign-produced rum aggregated approximately \$3.53 million, \$3.44 million, and \$4.66 million, in 1990, 1989 and 1988, respectively. While the funds so transferred are not Matching Fund Revenues, such payments are anticipated to provide some protection to the Government of the Virgin Islands' overall revenue base to the extent that declines in Federal excise taxes collected on the Virgin Islands rum exports are offset by increased demand for foreign rum in the United States market.

In recent years, other foreign countries have attempted to receive duty-free treatment on their rum exports to the United States. In 1987 and 1990, the Philippines and Colombia, respectively, failed in their attempts to receive favored treatment of their rum exports. More recently, as a result of lobbying by the Government of the Virgin Islands, the recent passage of the Andean Trade Preference Act, which provides duty-free benefits for Andean countries similar to those provided under the Caribbean Basin Initiative, included an amendment which excluded rum from the list of articles eligible for duty-free treatment.

The proposed North American Free Trade Agreement ("NAFTA"), is now the subject of negotiations between the governments of the United States, Mexico and Canada and may include some provisions on concessionary treatment of rum, including the removal of the existing \$1.40 duty on rum imported into the United States from Mexico. If NAFTA is enacted containing such provisions, Virgin Islands rum producers could experience greatly increased competition from Mexican rum producers due to possible significant cost advantages which could be realized by Mexico with respect to rum production factors, e.g., materials (molasses and bottling and packaging materials), labor, transportation and energy. The result of such increased competition could cause the importation of Virgin Islands rum to the United States to decrease, thereby reducing the excise taxes and Matching Fund Revenues payable. The Virgin Islands is undertaking steps to attempt to obtain special treatment or modification of the rules applying to rum under NAFTA. There can be no assurance that the Government's efforts will be successful. Under existing law, as modified by the CBI, federal excise taxes on imports of Mexican rum would continue to be transferred to the Virgin Islands and Puerto Rico, which payments could offset any losses of Matching Fund Revenues due to any increase in the importation of Mexican rum.

Sales of distilled spirits in the United States have declined since 1979. Total demand for and production of rum has declined since 1985. During the period from 1970 to 1989, however, rum's share of the distilled spirits market in the United States increased from 3% to 8.5%. Per capita consumption of distilled spirits declined from 2.0 gallons in 1977 to 1.50 gallons in 1989. Some of the factors related to this decline have been: concern with fitness and nutrition, stricter drunk driving laws, the increases in drinking age in many states, and the enforcement of dram shop laws which impute liability to drinking establishments for damages caused by individuals who cause injury while intoxicated.

## DISTILLED SPIRITS MARKET SHARE

	1970	1980	1989
Brown Spirits	<u>64.7%</u>	<u>48.7%</u>	<u>39.3%</u>
American Whiskies	41.9	22.9	17.1
Scotch	13.3	12.7	9.1
Other Whiskies(1)	9.5	13.1	13.1
White Spirits	<u>35.3%</u>	<u>51.3%</u>	<u>60.7%</u>
Rums	3.1	6.9	8.5
Vodka	11.8	18.8	22.5
Gin	10.0	9.4	8.4
Others(2)	10.4	16.2	21.3

(1) Includes Canadian whiskies.

(2) Includes brandies, cordials, liqueurs, tequila and prepared cocktails.

Source: Jobson's Liquor Handbook (1990)

No significant increase in the level of rum consumption in the United States is expected in the foreseeable future. The continued production of rum in the Virgin Islands is subject to risks associated with manufacturing operations, including: dependence on continuing availability of raw materials such as sugar cane and molasses, dependence on a single manufacturing plant, and other similar factors beyond the control of the Government of the Virgin Islands.

### *Molasses Payments*

Molasses, the principal ingredient of rum, is a commodity traded in the international commodity markets. The price of molasses is therefore subject to fluctuation based upon supply and demand. Substantially all of the molasses used by the Virgin Islands rum producers is purchased on such commodity markets from sources outside the Virgin Islands. There can be no assurance that molasses will be available to the Virgin Islands rum producers in the international commodity markets at prices which will permit such producers to operate competitively.

The Government of the Virgin Islands maintains a program, established pursuant to law, by which it stabilizes the cost of molasses to Virgin Islands rum producers. The effect of the molasses payments is to maintain the competitive position of Virgin Islands rum producers with producers in other countries in which local molasses supplies are readily available. There can be no assurance that the molasses payments will continue in the future or that, if continued, such payments will be in amounts sufficient to ensure the viability of the Virgin Islands rum producers.

*Virgin Islands Rum Industries, Ltd.* Approximately 90% of the rum produced in the Virgin Islands is distilled by Virgin Islands Rum Industries, Ltd. (the "VIRIL") located on St. Croix. VIRIL was founded in 1946 and currently has 55 employees. The company is a partnership owned by the principal officers of the firm. Although Hurricane Hugo caused extensive destruction to the VIRIL facilities, production at the distillery was interrupted only briefly.

The relatively modest overall impact of Hurricane Hugo is reflected in the sales results of the VIRIL for fiscal years 1989 and 1990 (fiscal years are reported on a February 1 to January 31 basis). For fiscal year 1989 the company reported total sales of \$6.23 million. For fiscal year 1990 (which included the period from late September 1989 to December 1989 when operations were interrupted by the hurricane) VIRIL reported total sales of \$5.80 million. In fiscal year 1991, VIRIL had total sales of \$6.4 million and sales for fiscal year 1992 are estimated by VIRIL to reach \$6.7 million. Production at the VIRIL distillery now exceeds immediate pre-Hurricane Hugo levels. Approximately 90% of the rum distilled by the VIRIL is exported. The balance is distributed locally in the Virgin Islands.

### **Additional Tax Revenues**

*General.* In addition to Matching Fund Revenues, the Government of the Virgin Islands derives its revenues from taxes imposed both by its Legislature and by the United States Government.

The Revised Organic Act sets forth the taxes imposed by the United States Government, the proceeds of which are paid into the Treasury of the Virgin Islands, including: customs duties, the United States income tax (collected locally as the Virgin Islands income tax), any taxes levied by Congress on the inhabitants of the Virgin Islands, and quarantine, passport, immigration and naturalization fees collected in the Virgin Islands. In addition, the Government of the Virgin Islands has the power to impose local taxes which include the real property tax, excise taxes, gross receipts tax and the hotel room tax. For a description of the Government of the Virgin Islands' program to provide tax relief and subsidies to certain businesses to promote economic growth, see "APPENDIX E-The United States Virgin Islands-Economic and Demographic Factors."

#### *Income Taxes*

The principal source of revenue for the Government of the Virgin Islands is income taxes. The Naval Appropriations Act, 1922, and Section 28(a) of the Revised Organic Act created a separate tax structure for the Virgin Islands which mirrors the Internal Revenue Code of 1986, as amended (the "Code").

A United States taxpayer who is a permanent resident of the Virgin Islands satisfies his United States income tax obligations by filing his return with, and paying income taxes to, the Government of the Virgin Islands, even if his income is from non-Virgin Islands sources. A nonresident of the Virgin Islands pays income taxes on his Virgin Islands source income to the Government of the Virgin Islands, and is entitled to a foreign tax credit on his United States federal tax return if the taxpayer is a United States citizen or United States domestic corporation.

In addition, Section 5 of Public Law 94-392 authorizes the Government of the Virgin Islands to levy a surtax on Virgin Islands taxpayers, not to exceed 10% of the annual income tax obligations of the taxpayers. This 10% surcharge was imposed on corporate tax-payers for taxable years beginning after

December 31, 1985. The proceeds of both the income tax and any surtax are payable into the General Fund of the Virgin Islands.

In fiscal year 1991, income tax collections were approximately \$225 million, comprising 53% of General Fund revenues.

### *Real Property Taxes*

The Government of the Virgin Islands imposes a tax on all real property in the Virgin Islands equal to 1.25% of the assessed valuation of such property. The assessed value of the real property is equal to 60% of its appraised value, as defined by statute. Noncommercial real property is reassessed every two years and commercial real property is reassessed annually. The proceeds of this tax, including surcharges, are paid into the General Fund, except that the first \$1.5 million of such tax collected annually must be deposited into the St. John Capital Improvements Fund and no amount in this latter fund is available to the Government of the Virgin Islands for expenditure or disbursement for the purpose of the payment of the Government Loan Notes.

All real property not expressly exempt is subject to the real property tax. Exemptions include (i) property of the Federal government, (ii) property of the Government of the Virgin Islands, (iii) property used for religious, educational, literary, scientific and charitable purposes, (iv) property subject to the homestead exemption, and (v) property for which exemptions have been granted by the Industrial Development Commission.

In fiscal year 1991, real property taxes were approximately \$28 million, comprising 6.5% of General Fund revenues.

### *Gross Receipts Tax*

Individuals and entities doing business in the Virgin Islands are required to pay a tax of 4.0% on the gross receipts of such business. The tax is broad and extends to most sellers of services and goods. The proceeds of the gross receipts tax are paid into the General Fund of the Treasury except that the first \$250,000 of such tax collected annually must be deposited in the Moderate Income Housing Fund. "Gross receipts" means "all receipts, cash or accrued, of the taxpayer for services or derived from trade, business, commerce or sales, and the value accruing from the sale of tangible personal property or services, or both, including rentals, fees and other involvements, however designated, without any deduction on account of the cost of the property sold, the cost of materials used, labor cost, royalties, taxes, interest or discount paid, and any other expenses whatsoever."

Certain businesses are exempt from the application of the gross receipts tax. For example, every person, partnership, firm, corporation or association whose gross receipts are less than \$150,000 per annum is allowed a \$5,000 exemption per month or a \$60,000 exemption per annum.

### *Excise Tax*

Individuals and entities doing business in the Virgin Islands are required to pay an excise tax on all articles, goods, merchandise or commodities manufactured or brought into the Virgin Islands for any business use or purpose, based on the volume or value of each such article, good, merchandise or

commodity. The tax covers most articles, goods, merchandise and commodities. Items specifically exempt from such excise tax include educational materials, nutritive foodstuffs, coal, fuel oil and liquid gas, molasses used for the production of rum, animal feed and commercial fertilizers, motor vehicles requiring licensing for highway use, items for sale to the Federal government, the Government of the Virgin Islands or an instrumentality of either one, and items imported or manufactured in the Virgin Islands which are exported to purchasers who take delivery and actual possession outside of the Virgin Islands. An exemption is also extended to franchised bus operators, costume jewelry manufacturers, Industrial Development Commission beneficiaries, certain film-making and other related professional equipment and licensed insurers.

There is a general exemption from the excise and gross receipts taxes for agencies of the Government of the Virgin Islands or the Federal government, religious, charitable, benevolent or educational organizations when not engaged in the conduct of business pursuits for profit, and transactions involving a charitable or benevolent purpose.

In fiscal year 1991, the gross receipts tax and excise tax collections aggregated approximately \$90 million, comprising 21% of General Fund revenues.

#### *Hotel Room Tax*

The Government of the Virgin Islands also levies a hotel room tax of 7.5% on gross room rate rentals, which is assessed against every individual who rents a room in a hotel or rents or leases an apartment, condominium or residence for less than 90 days. The hotel room tax was first imposed in 1979 at a rate of 5%. In 1983 the tax was increased to 6% and was increased to its present level, effective June 1986.

All of the hotel room taxes are now required to be deposited by the Director of the Bureau of Internal Revenue into the Tourism Advertising Revolving Fund. Historically only 50% of such taxes were used for tourism advertising. In 1988 the amount so used was increased to 65% and in 1989 it was increased to 100%. No amount in this fund is available to the Government of the Virgin Islands for expenditure or disbursement for the purpose of the payment of the Government Loan Notes.

#### *Federal Customs Duties*

An additional source of revenue consists of Federal customs duties imposed on goods brought into the Virgin Islands from countries other than the United States.

Federal customs duties collected in the Virgin Islands (less the cost of collecting such duties) are deposited into the General Fund. Foreign goods shipped from United States distributors are subject to a duty equal to 6% less the duty paid to United States Customs upon entering the United States. Articles imported from the United States into the Virgin Islands are subject to a tax equal to the internal revenue tax imposed in the Virgin Islands on goods manufactured in the Virgin Islands. Customs duties are collected and administered by the United States Customs Service.

Any importation of goods from the Virgin Islands into the United States requires the full payment of duties, except as to goods manufactured, grown or produced in the Virgin Islands which are exempt from duty under general headnote 3(a) of the United States Tariff Act of 1930. Such products qualify

for exemption so long as the cost of raw materials from foreign sources is no more than 70% of the sale value of the finished goods in the United States, or 50% of products excluded from the Caribbean Basin Economic Recovery Act, which exemptions are based upon labor input per unit.

## **Expenditures**

A significant portion of Government expenditures consist of appropriations for the administration and operation of Government institutions and facilities (such as educational facilities, health and hospital facilities, correctional facilities and courts) and for the operation of Government departments and agencies (such as police, housing, parks and recreation, economic development, agriculture, human services, environmental protection of national resources and general administration).

The remaining Government expenditures are required under legally binding contractual agreements which the Government has previously made or existing statutes which have continuing applicability. Contractually required expenditures include amounts for debt service payments. Expenditure totals also include amounts from the General Fund contributed to the University of the Virgin Islands, inter-fund transfers for special products and operating and capital funding for other semi-autonomous authorities.

Government expenditures during fiscal years 1987 through 1991 reflected a net 31% increase from \$322 million in fiscal year 1987 to \$423 million in Fiscal Year 1991, at an annual compounded rate of 7%.

## **FINANCIAL OVERVIEW**

### **General**

The finances of the Government of the Virgin Islands have experienced fluctuations in revenues and expenditures over the past six years, due to a number of non-recurring activities, administrative actions and revenue increases. Of particular consequence was the occurrence of Hurricane Hugo at the end of fiscal year 1989 which significantly affected revenues and expenditures in fiscal year 1990. A year-by-year analysis of recent General Fund financial activity is shown below. All revenues and expenditures presented below are on a modified accrual basis.

### *Fiscal Year 1992*

The Government's Fiscal Year 1992 budget has projected an increase in General Fund tax revenues of 18.1% (from \$349.55 million in tax revenues in Fiscal Year 1991 to projected tax revenues of \$412.9 million in Fiscal Year 1992). This increase is in part the result of a projected 10.7% growth in income taxes (from \$225.42 million in Fiscal Year 1991 to \$249.5 million projected in Fiscal Year 1992). Other factors contributing to increased revenues is the estimated collection of \$38.1 million and \$27.8 million on real property taxes for assessment years 1990 and 1991, respectively, which were billed in Fiscal Year 1992 and a projected 4.4% growth in gross receipt and excise taxes (from \$90.17 million in Fiscal Year 1991 to \$94.20 million projected in Fiscal Year 1992). Real property assessment years of 1990 and 1991 were billed in Fiscal Year 1992 due to a delay in the billing process as a result of Hurricane Hugo.



Tax refunds are projected to decrease by 32.5% from \$46.3 million taxes (on gross income taxes of \$225.4 million) in Fiscal Year 1991 to \$31.2 million (on projected gross income taxes of \$249.5 million) in Fiscal Year 1992.

General Fund expenditures are broken down by four general categories: legislative and judicial; administrative departments and agencies; service departments; and miscellaneous. Legislative and judicial expenditure budgets reflect a decline from \$39.87 million in Fiscal Year 1991 to a projected \$22.93 million in Fiscal Year 1992 (a rate of 42.5%). Expenditures for administrative departments and agencies are projected to grow 14.67% from \$295.37 to \$338.68 million. Service department expenditures are budgeted to grow by 7.83% to \$18.08 million in Fiscal Year 1992, and expenditures for other obligations, which comprise refunds, miscellaneous items and University of the Virgin Islands, are projected to increase from \$25.03 million in Fiscal Year 1991 to \$37.88 million in Fiscal Year 1992 (a rate of 51.4%).

Should it appear, in the course of the fiscal year, that expenditures will exceed revenues, the Governor, through the Office of Management and Budget, will take administrative measures necessary to achieve a balance of revenues and expenditures for Fiscal Year 1992. Fiscal Year 1992 results are currently projected to result in an operating deficit of \$12.2 million. The Government of the Virgin Islands intends to attempt to eliminate this deficit by reducing spending and a possible tax increase.

#### *Fiscal Year 1991*

The recession that began in the early part of Fiscal Year 1991 continued through the end of that year. Coupled with the recessionary trends during the year, the United States Virgin Islands experienced reduced travel to its shores largely because of the Gulf War and the fact that two of the five major air carriers serving the United States Virgin Islands ceased operations during the same period. In spite of these events, the Government of the Virgin Islands recorded increases in most of the major tax categories for Fiscal Year 1991, including individual income and corporate taxes and gross receipts taxes. In Fiscal Year 1991, the Government of the Virgin Islands recorded tax revenues of \$350 million, 22% higher than Fiscal Year 1990. Combined individual and corporate income taxes were up 30% and gross receipts and excise taxes were 25% higher than in fiscal 1990, due, in part, to increased economic activity related to the reconstruction effort following Hurricane Hugo. Property tax receipts were 5% lower as annual collections returned to normal levels by reflecting only current year receipts. After including contributions and loans, total resources of \$425 million were 19.8% higher than in Fiscal Year 1990. Total expenditures of \$423 million were 16.8% higher than in Fiscal Year 1990. The positive revenue trends resulted in part from the strong and sustained activity in the construction sector of the Virgin Islands' economy.

Preliminary Fiscal Year 1991 results indicate the General Fund operated at a surplus of \$1.8 million for the year.

#### *Fiscal Year 1990*

With the loss of hotel rooms and major damage to the ports and electrical infrastructure as a result of Hurricane Hugo, tourism activity in the early part of Fiscal Year 1990 was severely depressed. However, in later months, the impact of the decline in tourism was mitigated by activity in the

construction sector engaged in rebuilding the Virgin Islands. In Fiscal Year 1990, the Government of the Virgin Islands recorded tax revenues of \$287.0 million, 8.2% lower than Fiscal Year 1989. Property tax receipts were 32% higher due to collections of taxes originally payable in Fiscal Year 1989. After including contributions and loans, total resources of \$354.9 million were approximately the same as in Fiscal Year 1989. Total expenditures of \$362.4 million were 6.2% lower than in Fiscal Year 1989.

The Government recorded an operating deficit of \$7.5 million for Fiscal Year 1990.

#### *Fiscal Year 1989*

Despite the devastation of Hurricane Hugo two weeks prior to the close of the Fiscal Year, the Government of the Virgin Islands recorded taxes of \$312.4 million. This was 11.6% higher than Fiscal Year 1988, and the growth in tax revenues was primarily a result of a 19.3% increase in individual and corporate income taxes from 1988 to 1989. Expenditures of \$386.2 million were 24.9% higher than Fiscal Year 1988 due primarily to retroactive wage settlements and salary increases for legislative, judicial and administrative employees. It was during this year that the Government refunded its outstanding debt with the resulting savings of \$11 million in debt service costs. These savings were in turn applied to reduce the then outstanding retroactive salary liabilities to government employees. Total resources for Fiscal Year 1989 were \$355.5 million.

The Government of the Virgin Islands recorded an operating deficit of \$30.7 million for Fiscal Year 1989. However, after adjusting for amounts reserved in prior years and for accruals, the undesignated fund balance showed a deficit of \$1.6 million.

#### *Fiscal Year 1988*

Tax revenues in Fiscal Year 1988 were \$280.0 million, reflecting a return to a more normal growth curve in receipts, following several non-recurring revenue receipts in Fiscal Year 1987 including revenues resulting from the late issuance of real property tax bills in Fiscal Year 1986. Gross receipts and excise taxes showed continued growth from \$69.6 million in Fiscal Year 1986 to \$76.1 million, due to retroactive payments disbursed in late Fiscal Year 1987 and continued strength in the tourism market. Total resources of \$307.5 million and total expenditures of \$309.3 million resulted in an operating deficit of \$1.8 million.

#### *Fiscal Year 1987*

In Fiscal Year 1987, the Government of the Virgin Islands recorded tax revenues of \$323.5 million, a 32.9% increase over the previous year due to a number of non-recurring actions and tax increases. Property taxes rose to \$36.5 million from \$19.5 million in Fiscal Year 1986, reflecting collection of taxes for 1986 and 1985 which had been granted extensions. Individual income taxes increased to \$127.3 million, a 13.5% rise over Fiscal Year 1986. Corporate income tax collections increased from \$38.0 million in 1986 to \$70.9 million, due to a number of non-recurring actions totalling approximately \$30 million; gross receipts and excise taxes increased by 21.8% over Fiscal Year 1986, due in part to an increase in the gross receipts tax rate. Contributions rose by a net amount of \$13.0 million, as a result of a \$14.3 million transfer from the Union Award and Government Employees Fund to cover retroactive salaries.

Total expenditures were \$322.0 million, a 18.8% increase over 1986 due primarily to retroactive payments as a result of completed labor settlement negotiations. The actual payouts commenced in June 1987 with a substantial amount paid by fiscal year-end. Total resources of \$357.8 million and expenditures of \$322.0 million resulted in an operating surplus of \$35.8 million. During Fiscal Year 1987, the Government of the Virgin Islands completed repayment of inter-fund loans which it had been utilizing from Fiscal Years 1984-1986.

### *Labor Relations*

The current labor relations environment of the Government of the Virgin Islands is defined by 13 distinct labor organizations subject to approximately 25 collective bargaining agreements. Of the approximately 12,000 government workers, including employees of all three branches of the Government, approximately 9,500 belong to unions.

The present collective bargaining statute requires binding arbitration in the event of an impasse during salary negotiations between the Government of the Virgin Islands and any union. Under this process each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen parties. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision. As a result of this process, the Government of the Virgin Islands has previously incurred significant liabilities for retroactive salary adjustments. In addition, as such liabilities are not determined until after the completion of the arbitration process, liabilities for a particular fiscal year are not generally recognized in the budget until after the close of such fiscal year.

At the present time the Government of the Virgin Islands is not indebted for retroactive salary increases. This is due to the fact that the Government's current negotiating posture has, by and large, successfully discouraged consideration of retroactive increases.

The current negotiating position of the Government of the Virgin Islands calls for the retention of salaries at Fiscal Year 1991 levels. The financial climate for Fiscal Year 1992 has required the Government to discontinue further wage negotiations for Fiscal Year 1992, freeze measures already negotiated for Fiscal Year 1992 and engage in negotiating give-backs for those unions with already approved contracts for the current Fiscal Year 1992.

### *Government Employees Retirement System*

The Government Employees Retirement System requires that benefits promised under the law to members of the Virgin Islands Employees Retirement System be funded on an "actuarial reserve" basis. The most recent actuarial valuation, presented as of September 30, 1989 by Martin E. Segal Company, indicates that the number of contributing members was approximately 10,800. There were 2,546 retirees and surviving beneficiaries. The total liability for future benefits to current pensioners and beneficiaries was \$207.4 million. Assets were slightly less than two times retiree liability.

Amendments to the retirement statute in Fiscal Year 1990 increased employee and employer contributions to the system commencing April 1, 1990 as follows:

	Employee Contributions Rate	
	April 1, 1990 thru <u>March 31, 1991</u>	After <u>March 31, 1991</u>
Members of the Legislature	7.5%	9.0%
All other regular employees	7.0	8.0
Public Safety employees	8.0	8.0
Hazardous duty employees who elect early retirement system	10.0	10.0

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Source: Government Employees Retirement System.

The actuarial position suggests the amount which, when added to the total of employee contributions, will be sufficient to meet the actuarial cost. Current employer contributions are a fixed percentage of membership payroll, according to the following table:

Prior to April 1, 1990	11.0% of membership payroll
April 2, 1990 to April 1, 1991	12.0
April 2, 1991 to April 1, 1992	13.0
April 2, 1992 to April 1, 1993	14.0
After April 1, 1993	15.0

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Source: Virgin Islands Office of Management and Budget and Government Employees Retirement System.

### *Insurance*

With some exceptions, the Government of the Virgin Islands does not carry general casualty or liability insurance coverage on its properties or for the acts of its employees, instead relying on self-insurance and statutory liability limitations. However, as a result of an agreement with the Federal Emergency Management Agency ("FEMA"), an agency of the United States government, with respect to properties and structures damaged by Hurricane Hugo and repaired with federal disaster assistance, the Government of the Virgin Islands is currently seeking to insure hospitals, schools and other insurable public buildings that were repaired with such federal assistance. There can be no assurance that the Government of the Virgin Islands will not suffer a casualty or liability loss beyond the policy limits of its coverages or the limits of its self-insurance capabilities.

**UNITED STATES VIRGIN ISLANDS**  
**Unaudited Statement of General Fund Revenues and Expenditures**  
**Fiscal Years 1987-1991**  
**(amounts in thousands)**

	1991	1990	1989	1988	1987
Revenues					
Taxes:					
Real Property	\$27,808	\$29,289	\$22,265	\$24,481	\$36,456
Individual	183,885	145,213	152,593	128,199	127,345
Corporate	41,533	28,482	41,168	34,198	70,897
Gross Receipts & Excise	90,173	72,034	78,132	76,112	69,570
Hotel	0	1,113	3,673	5,322	8,777
Other Taxes	<u>6,152</u>	<u>10,836</u>	<u>14,069</u>	<u>11,643</u>	<u>10,495</u>
Total Taxes	<u>\$349,551</u>	<u>\$286,967</u>	<u>\$312,440</u>	<u>\$279,955</u>	<u>\$323,540</u>
Other Revenues:					
Custom Dues	4,522	5,000	3,564	3,371	4,743
Other <sup>(1)</sup>	<u>4,055</u>	<u>18,444</u>	<u>11,469</u>	<u>11,451</u>	<u>9,958</u>
Total Other	<u>\$8,577</u>	<u>23,444</u>	<u>15,033</u>	<u>14,822</u>	<u>14,701</u>
Contributions <sup>(2)</sup>	\$58,495	44,494	28,009	12,735	19,564
Miscellaneous <sup>(3)</sup>	<u>8,500</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Resources	<u>\$425,123</u>	<u>\$354,905</u>	<u>\$355,482</u>	<u>\$307,512</u>	<u>\$357,805</u>
Expenditures					
Legislative & Judicial	39,870	32,285	34,998	30,030	17,495
Admin. Depts. & Agencies	295,370	265,922	253,750	214,730	209,822
Service Departments	16,767	17,533	21,128	22,435	48,189
Miscellaneous <sup>(4)</sup>	<u>71,301</u>	<u>46,709</u>	<u>78,353</u>	<u>42,067</u>	<u>46,484</u>
Total Expenditures	<u>\$423,308</u>	<u>\$362,449</u>	<u>\$386,229</u>	<u>\$309,262</u>	<u>\$321,990</u>
Excess Revenues Over (Under)	1,815	(7,544)	(30,747)	(1,750)	35,815
Other Changes in Fund Balance	2,382	(1,230)	8,860	(18,058)	3,520
Fund Balance:					
Beginning of Year	13,311	22,085	43,972	63,780	24,445
End of Year	17,508	13,311	22,085	43,972	63,780

<sup>(1)</sup> Net of 1991 amount due the Virgin Islands Port Authority of \$2,591,000.

<sup>(2)</sup> Includes Community Disaster Loan Drawdown. See, "Indebtedness-Community Disaster Loan."

<sup>(3)</sup> Payment in full of the 1982 note of the Virgin Islands Water and Power Authority held by the Government of the Virgin Islands (the "WAPA Note").

<sup>(4)</sup> Includes Income Tax Refunds.

Source: Department of Finance

**UNITED STATES VIRGIN ISLANDS**  
**General Fund**  
**Unaudited Analysis of Changes in Undesignated Fund Balance-Modified Accrual**  
**For Fiscal Years 1987 Through 1991**  
(amounts in thousands)

	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>
Undesignated Fund Balance Forward	(\$19,847)	\$2,716	\$11,991	\$22,872	(\$25,454)
<b>Liabilities &amp; Reserves Brought Forward</b>					
Cash Adjustments					(648)
For Income Tax Refunds	5,500	4,525	6,760	6,350	7,200
For Amounts Due to Agencies		239	155	156	160
For Amounts Due to Other Funds			3,131		17,836
For Encumbrances	14,182	11,375	31,132	23,321	17,580
For Appropriations Carried Forward	15,976	8,738	3,680	1,127	401
Reserve for Contingencies	3,000	2,500	1,000	2,200	1,000
For Accrued Payrolls				910	
Prior Year Outstanding Obligations			500	1,134	1,000
Interest Due on Salary Arbitration Awards		<u>1,088</u>		<u>1,700</u>	
Cash Balance and Accruals	<u>18,811</u>	<u>31,181</u>	<u>58,349</u>	<u>59,770</u>	<u>19,075</u>
<b>Fiscal Year Transactions:</b>					
Revenues and Other Collections <sup>(1)</sup>	427,714	354,905	353,982	302,011	330,956
Other	<u>(2,591)</u>	<u>(2,044)</u>		<u>5,500</u>	
Net Revenues & Other Collections	425,123	352,861	353,982	307,511	330,956
<b>Accruals:</b>					
Withholding Taxes Due General Fund	6,275	4,099	6,881	1,802	1,472
Less: Withholding Taxes Collected in Prior Year	<u>(4,099)</u>	<u>(6,881)</u>	<u>(1,801)</u>	<u>(1,472)</u>	
Total Resources Available	446,110	381,260	417,411	367,611	351,503
<b>Less Expenditures:</b>					
Income Tax and Other Refunds	(46,270)	(26,643)	(28,104)	(21,119)	(18,580)
Other	<u>(377,038)</u>	<u>(335,806)</u>	<u>(358,125)</u>	<u>(288,143)</u>	<u>(278,535)</u>
Total Expenditures	(423,308)	(362,449)	(386,229)	(309,262)	(297,115)
<b>Liabilities and Reserves:</b>					
Prior Year Obligations Outstanding				(500)	
Income Tax Refund Due	(2,703)	(5,500)	(4,525)	(6,760)	(4,976)
Amount Due to Other Funds				(3,131)	(936)
Amount Due to Agencies			(240)	(155)	(156)
Encumbrances and Accounts Payable	(25,224)	(14,182)	(11,375)	(31,132)	(23,321)
Appropriations and Carry Forward	(555)	(15,976)	(8,738)	(3,680)	(1,127)
Reserve for Contingencies	(1,000)	(3,000)	(2,500)	(1,000)	(1,000)
Interest Due on Salary Arbitration Awards			<u>(1,088)</u>		
Balance	<u>(29,482)</u>	<u>(38,658)</u>	<u>(28,466)</u>	<u>(46,358)</u>	<u>(31,516)</u>
Total Expenditures	(452,790)	(401,107)	(414,695)	(355,620)	(328,631)
Undesignated Fund Balance	(\$6,680)	(\$19,847)	\$2,716	\$11,991	\$22,872

<sup>(1)</sup> Includes Community Disaster Loan Drawdown and Receipt-Payment WAPA Note  
Source: Department of Finance

**UNITED STATES VIRGIN ISLANDS  
GENERAL FUND REVENUES AND EXPENDITURES**

	<u>Fiscal Year 1992 Budget</u>	<u>Fiscal Year 1991 Actual</u>
<b>REVENUES</b>		
Income Taxes (Gross)	\$249,500,000	\$225,418,000
Real Property Taxes	65,900,000	27,808,000
Gross Receipts & Excise	94,180,000	90,173,000
All Other	<u>3,337,000</u>	<u>6,152,000</u>
<b>Total Taxes</b>	<b>412,917,000</b>	<b>349,551,000</b>
<b>Less Refunds</b>	<b><u>(31,250,000)</u></b>	<b><u>(46,270,000)</u></b>
<b>Net Taxes</b>	<b>381,667,000</b>	<b>303,281,000</b>
Other Revenues	6,418,000	6,646,000
Custom Dues	4,200,000	4,522,000
WAPA Note Repayment		8,500,000
Less Amount Due VIPA	<u>(2,550,000)</u>	<u>(2,591,000)</u>
<b>Sub Total (Net)</b>	<b>8,068,000</b>	<b>17,077,000</b>
<b>Total Revenues</b>	<b>389,735,000</b>	<b>320,358,000</b>
<b>Contributions</b>	<b><u>15,630,000</u></b>	<b><u>58,495,000</u></b>
<b>Total Resources</b>	<b>\$405,365,000</b>	<b>\$378,853,000</b>
<b>EXPENDITURES</b>		
Legislative and Judicial	22,927,000	39,870,000
Admin. Department and Agencies	338,687,000	295,370,000 (a)
Service Departments	18,080,000	16,767,000 (a)
Miscellaneous	<u>37,885,000</u>	<u>25,031,000 (a)</u>
<b>Total Expenditures</b>	<b>\$417,579,000</b>	<b>\$377,038,000</b>
<b>Excess of Revenues Over/(Under) Expenditures</b>	<b>(12,214,000)</b>	<b>1,815,000</b>

(a) An amount of \$24,656,841 was distributed from Miscellaneous to Administrative and Service Departments and Agencies for negotiated union and general service non-union increase.

Source: Department of Finance and the Office of Management and Budget

## INDEBTEDNESS

### Debt Incurring Power

Under the Virgin Islands Revised Organic Act, no general obligation indebtedness of the Government of the Virgin Islands shall be incurred in excess of 10% of the aggregate assessed valuation of the taxable real property of the Virgin Islands. The Government of the Virgin Islands has no outstanding debt subject to this limitation, except for \$4.445 million of economically defeased Outstanding Obligations. The provisions of Public Law 94-392 expressly provide that general obligation matching fund bonds shall not be subject to the 10% debt limitation discussed above. Revenue bonds may also be issued on behalf of the Virgin Islands for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount.

### Outstanding Debt

The following table presents information about the Government of the Virgin Islands' outstanding general obligation and general obligation matching fund debt.

#### United States Virgin Islands Summary Of General Obligation And General Obligation Matching Fund Indebtedness 1987 - 1991

Fiscal Year	Non-self Supporting General Obligation Matching Fund Debt (1)	General Fund Revenues	Total Assessed Valuation	Total Market Valuation	Debt % of Total Market Value
1987	\$133,152,000	\$357,805,000	\$6,568,000,000	\$10,946,000,000	1.22%
1988	\$116,427,000	\$307,512,000	\$6,812,000,000	\$11,354,000,000	1.03%
1989	\$198,200,000	\$355,482,000	\$6,973,652,000	\$11,622,985,788	1.71%
1990	\$196,635,000	\$354,905,000	\$7,055,089,000	\$11,758,716,836	1.67%
1991	\$194,045,000	\$425,123,000			

- (1) Does not include the economically Defeased Bonds, the Special Tax Bonds or \$20,000,000 in the Debt Service Reserve Fund under the 1989 Indenture.

Sources: Virgin Islands Department of Finance and the Virgin Islands Bureau of Economic Research

*Community Disaster Loan.* In addition to other forms of disaster assistance from FEMA, the Government of the Virgin Islands was the beneficiary of a Community Disaster Loan from FEMA during the last month of Fiscal Year 1990. The total amount available under the Community Disaster Loan is \$89.9 million to be drawn down over a period of three years.

The purpose of the Community Disaster Loan is to compensate the Government of the Virgin Islands for (a) projected revenue losses resulting from Hurricane Hugo, during the three Fiscal Years



following the disaster (Fiscal Years 1990-1992), and (b) increases in general municipal operating costs caused by Hurricane Hugo over three years following the disaster. Interest on the Community Disaster Loan accrues at a rate of 8 1/4% from the actual date of each disbursement by the United States Treasury Department. To date, the Government has drawn down \$43 million. In Fiscal Year 1991, the Government of the Virgin Islands was denied a \$7 million draw down. The principal of and accrued interest on the Community Disaster Loan is due five years from the date the Community Disaster Loan was executed unless an extended payment schedule is negotiated. Under FEMA Rules and Regulations, however, the Government of the Virgin Islands may make an application for a loan cancellation based on its net revenues during the three years following the disaster (Fiscal Years 1990-1992).

The Community Disaster Loan, by its terms, is secured by a pledge of the full faith and credit of the Government of the Virgin Islands. The Government of the Virgin Islands has committed internally to transfer \$3 million from excess Matching Fund Revenues to the General Fund for each of the fiscal years 1990, 1991 and 1992, to provide for the payment of a portion of the Government of the Virgin Islands' operating costs in such years, however, Matching Fund Revenues are not pledged to the repayment of the Community Disaster Loan.

The following table sets forth the outstanding debt obligations, by issue, that make up the Government's General Obligation Matching Fund debt as of September 30, 1991 (other than economically Defeased Bonds):

<b>United States Virgin Islands</b>	
<b>Summary of General Obligation Bond Matching Fund Indebtedness</b>	
<b>As of September 30, 1991</b>	
	<u>Outstanding Principal Amount</u>
1989 Series A Note	\$141,290,000
1989 Series B Note	72,755,000
1991 Hurricane Hugo Insurance Bonds	<u>28,760,000</u>
<b>Total General Obligation Matching Fund Debt</b>	<b><u>\$242,805,000</u></b>

#### **Coverage of Government General Obligation Matching Fund Debt**

Total annual debt service in Fiscal Year 1992 on the 1989 Notes was approximately \$18,050,000. Matching Fund Revenues for 1992 are estimated to be \$28,651,000, resulting in coverage of approximately 1.59 times the debt service on the 1989 Notes. The only other Matching Fund debt issued since the 1989 Notes were the Special Tax Bonds issued in connection with the Hurricane Hugo Insurance Claims Fund Program. The Special Tax Bonds were structured to produce level debt service of approximately \$3,308,000 annually. While the Special Tax Bonds are backed by Matching Fund Revenues, they are also secured first by receipts from the Insurance Premiums Tax and the Foreign Sales Corporations Franchise Tax. For calendar year 1991, collections of Insurance Premiums Taxes and Foreign Sales Corporation taxes equalled \$6,326,870 and \$4,592,084, respectively. For a description

of the Special Tax Bonds, see Appendix B. For the purposes of comparison, however, Matching Fund Revenues provide coverage of approximately 1.34 times debt service on the 1989 Notes and Special Tax Bonds and, after giving effect to the issuance of the Government Loan Notes, approximately 1.26 times debt service on all debt secured by Matching Fund Revenues.

The following table sets forth the outstanding debt obligations of the agencies and instrumentalities of the Government of the Virgin Islands as of May 30, 1992 (other than the 1989 Bonds):

**UNITED STATES VIRGIN ISLANDS  
SUMMARY OF REVENUE BOND INDEBTEDNESS  
As of May 30, 1992**

	Outstanding Principal Amount
<b>Revenue Bonds of Government Instrumentalities:</b>	
<b>Virgin Islands Public Finance Authority</b>	
Highway Revenue Bonds . . . . .	\$29,390,000
<b>Virgin Islands Water and Power Authority</b>	
Electric System . . . . .	\$82,325,000
Water System <sup>(1)</sup> . . . . .	\$26,500,000
<b>Virgin Islands Port Authority</b>	
Aviation Division . . . . .	\$33,705,000
Marine Division <sup>(2)</sup> . . . . .	\$8,020,000
<b>Virgin Islands Housing Finance Authority</b> . . . . .	\$47,500,000 <sup>(4)</sup>
<b>University of the Virgin Islands<sup>(3)</sup></b> . . . . .	<u>\$1,263,500</u> <sup>(5)</sup>
<b>Total Revenue Debt</b> . . . . .	<b>\$228,703,500</b>

Sources: Virgin Islands Department of Finance; Virgin Islands Water and Power Authority Financial Statements; Virgin Islands Port Authority Financial Statements; Virgin Islands Housing Finance Authority Financial Statements; Virgin Islands Public Finance Authority Financial Statements; and University of the Virgin Islands Financial Statements.

- <sup>(1)</sup> Excludes Water System Revenue Bonds 1992 Series B in the approximate aggregate principal amount of \$21,175,000 scheduled to be issued on or about June 10, 1992.
- <sup>(2)</sup> Excludes Virgin Islands Port Authority, Marine Division Subordinated Revenue Bonds, 1992 Series B in the approximate aggregate principal amount of \$2,470,000 scheduled to be issued on or about June 15, 1992.
- <sup>(3)</sup> Excludes University of the Virgin Islands General Obligation Bond Anticipation Notes, to be issued in multiple series from time to time, maturing no later than December 1, 1997. The first series of Notes, 1992 Series A, was issued on April 27, 1992 in the original principal amount of \$500,000.
- <sup>(4)</sup> As of June 30, 1990.
- <sup>(5)</sup> As of September 30, 1990.

## CAPITAL PROGRAM

On September 27, 1988, the Legislature of the Virgin Islands passed The Government Capital Improvement Act of 1988 authorizing the financing of a comprehensive capital program totalling approximately \$330 million. The Government Capital Improvement Act of 1988 authorized the issuance of bonds as well as other revenue sources to fund a range of capital projects to be undertaken by the Government of the Virgin Islands, the Virgin Islands Port Authority and the Virgin Islands Water and Power Authority. The major projects authorized in the capital program included construction and renovation of schools, electric and water system improvements, airport construction and road construction and improvements.

Since the passage of The Government Capital Improvement Act of 1988, the Government and its governmental authorities have continued to implement the comprehensive capital program. The devastation wrought by Hurricane Hugo substantially increased the range of capital reconstruction efforts, and also enabled the Government to raise significant new funds for investment in the capital facilities of the United States Virgin Islands. The Government Capital Improvement Act of 1988 authorized a range of projects which have since been financed through the sale of bonds, including the following:

<u>Project</u>	<u>Financed Amount</u>	<u>Repayment Source</u>
St. Thomas Airport	\$35,000,000	Airport User Fees
Electric System	\$82,325,000	Electric Rates
Water System	\$26,800,000	Water Rates
Road Improvements	\$29,240,000	Gas Taxes and Highway User Fees
General Improvements	\$76,890,000	Matching Funds

In addition to the use of debt financing, capital improvements are funded on an annual basis through ongoing Federal appropriations. For Fiscal Year 1991, discretionary Federal appropriations exceeded \$30 million.

Since Hurricane Hugo, additional investment in the reconstruction of capital facilities has been funded extensively through reimbursement for project reconstruction costs from FEMA. Following Hurricane Hugo, the Governor of the Virgin Islands created a Washington D.C. Task Force to lead and coordinate efforts to secure Federal assistance in reconstruction efforts. Since that time, Federal assistance to the United States Virgin Islands has totaled approximately \$558 million. The major areas of capital investment funded included \$46 million for school reconstruction and \$140 million for the reconstruction of government facilities. In addition to Federal assistance, private insurance payments to date are in excess of \$1 billion.

## LITIGATION

There is no litigation pending in any court or, to the best of the knowledge of the Authority, threatened, questioning the corporate existence of the Authority or which would restrain or enjoin the issuance or delivery of the Bonds, or which concerns the proceedings of the Authority taken in connection with the Bonds or the pledge or application of any Revenues provided for their payment, or which contest the powers of the Authority with respect to the foregoing.

## **TAX EXEMPTION**

### **Series 1992 A Bonds**

In the opinion of Rogers & Wells, Bond Counsel, under existing statutes and court decisions, (i) interest on the Series 1992 A Bonds is not included in gross income of the owners thereof for Federal and Virgin Islands income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) such interest will not be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however, is included in the adjusted current earnings of a corporation for purposes of computing the alternative minimum tax imposed on corporations. The opinions expressed in clause (i) of the preceding sentence are subject to the conditions that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 1992 A Bonds in order that interest thereon be (or continue to be) excluded from gross income. Failure to comply with certain such requirements could cause the interest on the Series 1992 A Bonds to be so included in gross income retroactive to the date of issuance. The Authority has covenanted to comply with all such requirements. In the opinion of Rogers & Wells, Bond Counsel, under existing statutes, interest on the Series 1992 A Bonds is exempt from personal income taxes imposed by any state, other territory or possession of the United States or any political subdivision thereof, or by the District of Columbia.

The Code contains other provisions that could result in tax consequences, upon which Rogers & Wells renders no opinion, as a result of ownership of such Series 1992 A Bonds or the inclusion in certain computations (including without limitation those related to the corporate environmental tax) of interest that is excluded from gross income. Ownership of tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 1992 A Bonds should consult their tax advisors as to applicability of any such collateral consequences.

### **Series 1992 B Bonds**

Interest on the Series 1992 B Bonds will be includable in gross income for Federal and Virgin Islands income tax purposes. In the opinion of Rogers & Wells, Bond Counsel, under existing statutes, interest on the Series 1992 B Bonds is exempt from personal income taxes imposed by any state of the United States or any political subdivision thereof, or by the District of Columbia. Holders of Series 1992 B Bonds subject to personal income taxes in other territories or possessions should consult their tax advisors concerning the taxability of interest on the Series 1992 B Bonds.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Ernst & Young, independent certified public accountants, will verify the mathematical accuracy of the computation of the maturing principal and interest earned on the Escrowed Obligations to be purchased with the proceeds of the Bonds and held pursuant to the Escrow Agreement to provide for the

payment of the principal of, redemption premium, if any, and interest due and to be due on the 1989 Bonds.

### **LEGAL OPINIONS**

Certain legal matters incident to the issuance of the Bonds are subject to the approval of Rogers & Wells, New York, New York, Bond Counsel. The approving opinion of Bond Counsel, substantially in the form set forth in Appendix F hereto, is to be furnished upon delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by Battle Fowler, New York, New York and Bernard Van Sluytman, Esq., St. Thomas, United States Virgin Islands.

### **RATINGS**

The Bonds have not been rated by any rating agency, and no such rating has been applied for by the Authority.

### **FINANCIAL ADVISOR**

Public Financial Management, Inc. served as financial advisor to the Authority with respect to the sale of the Bonds. The financial advisor assisted the Authority in the preparation of the Official Statement, and in other matters relating to the planning, structuring and issuance of the Bonds, and provided other advice.

### **UNDERWRITING**

The Bonds are being purchased by the Underwriters, for whom Bear, Stearns & Co. Inc. is acting as Representative. The aggregate purchase price payable by the Underwriters for the Bonds is par plus accrued interest. The Underwriters are obligated to purchase all of the Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract relating to the Bonds, the approval of certain legal matters by counsel and certain other conditions. The Underwriters will receive an underwriting fee of \$3,439,172.02. The initial public offering price and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to certain dealers (including dealers who may sell the Bonds into investment accounts, some of which may be managed by an Underwriter) and certain dealer banks and banks acting as agents.

### **MISCELLANEOUS**

In this Official Statement, any summaries or descriptions of provisions in the Indenture, the Government Loan Notes, and all references to other materials not purporting to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents relating to such matters for further information, copies of which may be obtained from the office of the Authority.

Any statement in this Official Statement involving matters of estimates or opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is

not to be construed as a contract or agreement between the Authority and the owners or holders of, or of interests in, any of the Bonds.

Financial and statistical information has been provided by the Government of the Virgin Islands, certain of its agencies and instrumentalities, and other sources deemed reliable. Neither the Authority nor the Underwriters are responsible for any of such information nor have the Authority and the Underwriters independently verified such information.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

By: /s/ Alexander A. Farrelly  
Chairman

Dated: June 18, 1992

## APPENDIX A

### GLOSSARY OF TERMS

*Act* shall mean, collectively, the Virgin Islands Revised Organic Act of 1954, 48 U.S.C.A. 1574-1574c (West 1987), 1988 V.I. Acts 5365, and other applicable law, as the same may be amended from time to time.

*Act of Bankruptcy* shall mean (i) the entity under consideration shall have applied for or consented to the appointment of a custodian, receiver, trustee or liquidator of all or substantially all of its assets; (ii) a custodian shall have been appointed with or without consent of such entity; (iii) such entity has made a general assignment for the benefit of creditors, or has filed a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any insolvency law; (iv) such entity has filed an answer admitting the material allegations of a petition in any bankruptcy, reorganization or insolvency proceeding, or taken any action for the purpose of effecting any of the foregoing; (v) a petition in bankruptcy shall have been filed against such entity and shall not have been dismissed for a period of 60 consecutive days; (vi) an order for relief has been entered under the Bankruptcy Code with respect to such entity; (vii) an order, judgment or decree shall have been entered, without the application, approval or consent of such entity by any court of competent jurisdiction approving a petition seeking reorganization of such entity or appointing a receiver, trustee, custodian or liquidator of such entity or substantially all of its assets, and such order, judgment or decree shall have continued unstayed and in effect for any period of 60 consecutive days; (viii) such entity shall have suspended the transaction of its usual business.

*Aggregate Debt Service* for any period shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to the Bonds.

*Annual Debt Service* shall mean, as of any date of calculation with respect to specified Bond Year, Debt Service plus any premium, if any, then scheduled to be payable for the Bonds in the respective Bond Year.

*Authority* shall mean the Virgin Islands Public Finance Authority, a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government of the Virgin Islands, or, if said Authority shall be abolished, any authority, board, body or officer succeeding to the principal functions thereof.

*Authorized Officer* shall mean the Executive Director or Chairman of the Authority or any other person authorized by the Authority to perform an act or sign a document on behalf of the Authority for purposes of the Indenture or a Supplemental Indenture as set forth in a certificate of the Authority which has been delivered to the Trustee.

*Board* shall mean the Board of Directors of the Authority.

*Bond or Bonds* shall mean any bond or bonds, as the case may be, issued pursuant to the Indenture.

*Bond Fund* shall mean the Bond Fund established in the Indenture.

*Bond Proceeds Fund* shall mean the Bond Proceeds Fund established in the Indenture.

*Bond Register* and *Bond Registrar* shall have the respective meanings specified in the Indenture.

*Bond Year* shall mean a period of twelve (12) consecutive months beginning on October 1 in any calendar year and ending on September 30 of the succeeding calendar year.

*Borrower* shall mean the Government of the Virgin Islands.

*Business Day* shall mean any day that is not a Saturday, Sunday or legal holiday in the Virgin Islands or a day on which the Trustee or banking institutions organized under the laws of the Virgin Islands are legally authorized to close.

*Code* shall mean the Internal Revenue Code of 1986, as amended.

*Corporate Trust Office* means the principal office of the Trustee in which the corporate trust business of the Trustee shall, at any particular time, be principally administered, which office is, at the date as of which the Indenture is dated, located at 114 West 47th Street, New York, New York, except that, with respect to presentation of Bonds for payment or registration of transfer and exchange and the location of the Bond Register, such term means the office or agency of the Trustee in said city at which at any particular time its corporate agency business shall be conducted, which is, at the date as of which this Indenture is dated, located at 114 West 47th Street, New York, New York.

*Counsel's Opinion* shall mean an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds (who may be counsel to the Authority) selected by the Authority and reasonably satisfactory to the Trustee.

*Debt Service* for any period shall mean, as of any date of calculation and with respect to the Bonds then Outstanding, an amount equal to the sum of (i) the interest accruing during such period on the Bonds and (ii) that portion of each Principal Installment which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date or, if there shall be no such preceding Principal Installment due date, from a date six months preceding the due date of such Principal Installment or from the date of issuance of the Bonds, whichever is later. Such interest and Principal Installments shall be calculated on the assumption that no Bonds Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

*Debt Service Reserve Fund* shall mean the Debt Service Reserve Fund established pursuant to the Indenture.

*Debt Service Reserve Fund Requirement* shall mean, as of any date of calculation thereafter, an amount equal to the maximum Annual Debt Service accruing in the then current or a succeeding Bond Year.

*DTC* or *Depository* shall mean The Depository Trust Company, New York, New York, and its successors and assigns.



*Escrow Account* shall mean the account created pursuant to the Escrow Agreement in which the Escrowed Obligations will be held for the payment of the principal of, redemption premium, if any, and interest on the 1989 Bonds.

*Escrow Agent* shall mean Citibank, N.A., the trustee under the Escrow Agreement, or any successor thereto.

*Escrow Agreement* shall mean the agreement, dated as of June 1, 1992, entered into by and between the Government of the Virgin Islands and the Escrow Agent.

*Escrowed Obligations* shall mean those obligations held by the Escrow Agent pursuant to the terms of the Escrow Agreement.

*Fiduciary* or *Fiduciaries* shall mean the Trustee, the Paying Agents or any or all of them, as may be appropriate.

*Fiscal Year* shall mean the Authority's fiscal year, which is presently October 1 to the following September 30th.

*Funds* shall mean, collectively, the Bond Proceeds Fund, the Revenue Fund, the Bond Fund, the Debt Service Reserve Fund, the Surplus Fund and the Rebate Fund.

*Government Loan Notes* shall mean collectively the Series 1992 A Note and the Series 1992 B Note.

*Indenture* shall mean the Indenture of Trust, as the same may from time to time be amended or supplemented by a Supplemental Indenture in accordance with the terms thereof.

*Independent Counsel* shall mean an attorney, or a firm thereof, admitted to practice law before the highest court of any state in the United States of America, the United States Virgin Islands or the District of Columbia and not an employee on a full-time basis of either the Authority or the Trustee (but who or which may be regularly retained by any one or more of them).

*Loan Agreement* shall mean the amended and restated loan agreement by and between the Authority and the Government of the Virgin Islands dated as of June 1, 1992, as the same may from time to time be amended or supplemented in accordance with the terms thereof.

*Matching Fund Revenues* for any period shall mean amounts paid over to the Government of the Virgin Islands pursuant to Section 28(b) of the Revised Organic Act of 1954, 48 U.S.C. §§ 1574-1574c (West 1987), or any successor provisions thereto.

*Moody's* shall mean Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, *Moody's* shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

*Nominee* shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

*Officer's Certificate* shall mean a certificate signed by an Authorized Officer.

*Outstanding*, when used with reference to Bonds, shall mean, as of a particular date, the principal amount of Bonds theretofore or thereupon being authenticated and delivered under the Indenture, provided, however, that there shall be excluded from such computation: (a) any Bond cancelled or delivered to the Trustee for cancellation at or before said date; (b) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and (c) any Bond deemed to have been paid as provided in the Indenture.

*Owner of Bonds or Bondowner*, or any similar term, shall mean any person who shall be the registered owner of any Bond or Bonds.

*Participants* shall mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as securities depository.

*Paying Agent* shall mean any commercial bank or trust company organized under the laws of the United States Virgin Islands, any state of the United States, or the United States of America, or any national banking association designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the Indenture.

*Permitted Investments* shall mean and include any of the following securities, if and to the extent the same are at the time legal for the investment of funds held under the Indenture:

(i) direct obligations of the United States or obligations guaranteed as to principal and interest by the United States;

(ii) general obligations of any state, territory, possession or commonwealth of the United States with a rating at the time of purchase in either of the two highest Rating Categories as designated by either Rating Agency;

(iii) prerefunded obligations of any state, territory, possession or commonwealth of the United States or political subdivision thereof secured by cash or obligations listed in subsection (i) above, with a rating at the time of purchase in the highest Rating Category as designated by either Rating Agency;

(iv) obligations of the Government of the Virgin Islands, or obligations guaranteed as to both principal and interest, by the Government of the Virgin Islands with a rating at the time of purchase in one of the two highest Rating Categories as designated by either Rating Agency;

(v) obligations issued, or the principal of and interest on which are unconditionally guaranteed, by any agency or instrumentality of or a corporation wholly owned by the United States with a rating at the time of purchase in one of the two highest Rating Categories as designated by either Rating Agency;

(vi) repurchase agreements with banks, savings and loan associations or trust companies organized under the laws of the United States Virgin Islands, the United States, or any state, territory, possession or commonwealth of the United States; provided, however, that any such bank, savings and loan association or trust company shall have a combined capital and surplus at least equal to \$200,000,000 and, further provided that (a) such agreements are fully secured by obligations set forth in (i), (ii), and (iii), above; (b) such collateral is not subject to liens or claims of third parties; (c) such collateral has a market value at least equal to (102%) of the amount invested; (d) the Trustee has a valid security interest in such collateral; and (e) such agreement shall provide that the failure to maintain such collateral at the level required by clause (c) for a period of 10 days will require the Trustee or its agents to liquidate the investments;

(vii) investment agreements, guaranteed investment contracts or similar funding agreements issued by insurance companies or other financial institutions; provided that (a) such agreements are fully secured by obligations set forth in (i), (ii), and (iii), above; (b) such collateral is not subject to liens or claims of third parties; (c) such collateral has a market value at least equal to (102%) of the amount invested; (d) the Trustee has a valid security interest in such collateral; and (e) such agreement shall provide that the failure to maintain such collateral at the level required by clause (c) for a period of 10 days will require the Trustee or its agents to liquidate the investments;

(viii) bankers' acceptances or bank time deposits evidenced by certificates of deposit issued by banks, savings and loan associations or trust companies with a combined capital and surplus at least equal to \$200,000,000 and organized under the laws of the United States Virgin Islands, the United States, or any state, territory, possession or commonwealth of the United States, and further provided that (a) such agreements are fully secured by obligations set forth in (i), (ii), and (iii), above; (b) such collateral is not subject to liens or claims of third parties; (c) such collateral has a market value at least equal to (102%) of the amount invested; (d) the Trustee has a valid security interest in such collateral; and (e) such agreement shall provide that the failure to maintain such collateral at the level required by clause (c) for a period of 10 days will require the Trustee or its agents to liquidate the investments;

(ix) shares, units of beneficial interest or participation, or other interests in any mutual fund, investment program pool, trust or investment company organized or sponsored by the Virgin Islands Public Finance Authority the assets of which consist of cash or the Permitted Investments; and

(x) corporate commercial paper rated in either of the two highest Rating Categories as designated by either Rating Agency at the time of investment.

Any such Permitted Investment may be purchased or sold by, from or through the Authority or the Trustee. The Authority will not direct the Trustee to hold investments described in (vi), (vii) and (viii) unless arrangements satisfactory to the Trustee are in place to verify and monitor compliance with such provisions.

*Person* shall mean an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

*Principal Installment* shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain

future date, or (ii) the unsatisfied balance (determined as provided in the Indenture) of any Sinking Fund Installments due on a certain future date for Bonds of such Series.

*Rebate Fund* shall mean the Rebate Requirement defined in the Tax Regulatory Agreement.

*Record Date* shall mean with respect to an interest payment date for a particular Series of Bonds, unless otherwise provided by the Indenture, the fifteenth day (or if such day shall not be a Business Day, the preceding Business Day) next preceding such interest payment date.

*Redemption Price* shall mean with respect to any Bond, the principal amount of such Bond, accrued interest thereon plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Indenture.

*Representation Letter* shall mean the Representation Letter from the Authority to the Depository in substantially the form set forth in Exhibit F to the Indenture, or in such other form as may be acceptable to the Authority and the Depository.

*Revenue Fund* shall mean the Revenue Fund established in the Indenture.

*Revenues* shall mean (i) any proceeds and collections from the Government Loan Notes deposited in the Revenue Fund and (ii) any proceeds which arise with respect to any disposition of the Trust Estate.

*S&P* shall mean Standard & Poor's Corporation, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, *S&P* shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

*Series 1989 A Bonds* shall mean the Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands General Obligation/Matching Fund Loan Note), Series 1989 A.

*Series 1989 A Loan Note* shall mean the note of the Government of the Virgin Islands delivered to the Authority in connection with the loan of Series 1989 A Bond proceeds.

*Series 1989 B Bonds* shall mean the Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands General Obligation/Matching Fund Loan Note), Series 1989 B.

*Series 1989 B Loan Note* shall mean the note of the Government of the Virgin Islands delivered to the Authority in connection with the loan of Series 1989 B Bond proceeds.

*Sinking Fund Installment* shall mean with respect to any Series of Bonds an amount so designated which is established pursuant to the Indenture or Supplemental Indenture authorizing such Series of Bonds.

*Special Escrow Agreement* shall mean the Special Tax Bonds Escrow Agreement, dated as of April 1, 1991, as amended, entered into by and between the Government of the Virgin Islands and the Special Escrow Agent.

*Special Escrow Agent* shall mean Citibank, N.A., the escrow agent under the Special Escrow Agreement, or any successor thereto.

*Supplemental Indenture* shall mean any indenture amending or supplementing the Indenture in accordance with the terms thereof.

*Surplus Fund* shall mean the Surplus Fund established in the Indenture.

*Tax Opinion* shall mean, with respect to any action requiring such an opinion hereunder, a Counsel's Opinion to the effect that such action, of itself, will not adversely affect the exclusion of interest on any Bond from gross income for federal income tax purposes.

*Tax Regulatory Agreement* shall mean that agreement between the Government of the Virgin Islands and the Authority dated as of the date the Series 1992 A Bonds are issued, as amended from time to time, relating to the requirements of the Code for exemption of interest on the Series 1992 A Bonds from Federal income tax.

*Trust Estate* shall mean (i) monies on deposit from time to time in all funds and accounts established pursuant to the Indenture (except the Rebate Fund and the Surplus Fund) including the investments, if any, thereof, and all income and proceeds derived from such investments (except as provided in the Indenture); (ii) the Loan Notes which are delivered to the Authority by the Government of the Virgin Islands of proceeds of the sale of Bonds, and the proceeds and collections therefrom; (iii) all right, title and interest of the Authority in the Loan Agreement, and all amendments, modifications and renewals thereof, reserving, however, the rights providing that notices and other communications be given to the Authority; (iv) all right, title and interest of the Authority in the Revenues; and (v) any and all other property or security interest therein, of every name and nature and from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, conveyed, transferred, mortgaged, pledged and assigned as and for additional security hereunder, by the Authority or anyone in its behalf pursuant to this Indenture or with its consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

*Trustee* shall mean United States Trust Company of New York, a trust company duly organized and existing under the laws of the State of New York, trustee under this Indenture.

*Written Order* shall mean a written direction of the Authority to the Trustee signed by an Authorized Officer.

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## APPENDIX B

### OUTSTANDING OBLIGATIONS

#### **Special Tax Bonds**

The Government developed the Hurricane Hugo Insurance Claims Fund Program to address the needs of victims of Hurricane Hugo, and specifically the insurance claims of those formerly insured by two insurance companies that ceased business after the hurricane. The Program was financed by the Government in part through issuance of \$28.76 million in Special Tax Bonds (General Obligation Matching Fund/Hugo Insurance Claims Fund Program) Series 1991 (the "Special Tax Bonds").

The Special Tax Bonds mature in 2006 and were structured to produce level debt service in an amount of approximately \$3.31 million annually. The Special Tax Bonds are secured by a pledge of Insurance Premium Tax revenues, Foreign Sales Corporation Tax revenues and Matching Fund Revenues. In addition, moneys in the Virgin Islands Insurance Guaranty Fund in excess of \$5,000,000 are available to pay debt service.

#### *Insurance Premium Taxes*

Under Title 22, Chapter 25, Section 603, Virgin Islands Code Ann., a tax is levied in the amount of five percent on the quarterly gross receipts premiums collected by insurance companies on life, property, casualty, property, casualty, and title insurance transacted in the Virgin Islands or covering risks in the Virgin Islands, less return premiums relating thereto and less reinsurance premiums on such business received from insurance companies authorized to do business in the Virgin Islands. The tax is collected quarterly on the first day of February, May, August and November of each year. Revenues from the tax, less premium taxes on reinsurance contracts and 50% of the tax up to \$500,000 per year for operations of the Division of Banking and Insurance, are deposited under the Indenture for payment of debt service on the Special Tax Bonds. For calendar year 1991, according to the Division of Banking and Insurance, collections of Insurance Premium Taxes were \$6,326,870.92.

#### *Foreign Sales Corporations Franchise Tax*

Under Title 13, Chapter 5, Section 531, Virgin Islands Code Ann., the Government of the Virgin Islands imposes a tax on foreign sales corporations qualified to do business in the Virgin Islands. By electing to be treated as a foreign sales corporation under the Internal Revenue Code of 1986 (the "Code") as amended, such corporations become eligible for favorable federal tax treatment of their foreign trade income under the Code. Foreign sales corporations qualified to do business in the Virgin Islands must pay a franchise tax of \$1.50 for each \$1,000 of capital stock issued (the "Franchise Tax") provided that the minimum franchise tax payable measured by the foreign trade gross receipts of such corporations is \$400 for small foreign sales corporations (corporations qualifying for favorable federal tax treatment on up to \$5,000,000 in foreign trade gross receipts) and \$1,000 for all other foreign sales corporations and increasing up to a minimum of \$25,000 for a foreign sales corporation with foreign trade gross receipts in excess of \$500 million for the prior year.

Pursuant to authorizations contained in Title 13, Chapter 5, Section 531, Virgin Islands Code Ann., the revenues from the foreign sales corporations franchise tax (the "Franchise Tax Revenues") are deposited in the Revenue Fund for the Special Tax Bonds for as long as the Special Tax Bonds remain outstanding. For calendar year 1991, deposits to the Revenue Fund of Foreign Sales Corporation taxes were \$4,592,084.92.

*Matching Fund Revenues*

To the extent Insurance Premium taxes and Foreign Sales Corporation taxes are insufficient to pay debt service, the Government may determine to fund payment of debt service on the Special Tax Bonds or any deficiency in the Debt Service Reserve Fund from monies on deposit in the Virgin Islands Insurance Guaranty Fund in excess of \$5,000,000. If the Government does not choose to use monies in the Insurance Guaranty Fund, the Special Tax Bonds Indenture provides that Matching Fund Revenues are to be transferred to the Trustee in an amount sufficient to fund payment of debt service on the Special Tax Bonds or any deficiency in the Debt Service Reserve Fund.

*Virgin Islands Insurance Guaranty Fund*

The Virgin Islands Insurance Guaranty Fund is a separate and distinct fund in the Government of the Virgin Islands Treasury to be administered by the Commissioner of Finance for payment of insurance claims of failed insurers. Monies in the Insurance Guaranty Fund may be used to make up any shortfall in the Bond Fund or Debt Service Reserve Fund to the extent the amount on deposit in the Insurance Guaranty Fund exceeds \$5,000,000. As of April 24, 1992 the balance of the Insurance Guaranty Fund amounted to \$13,248,148.

**Defeased Bonds**

**GOVERNMENT OF THE VIRGIN ISLANDS  
OUTSTANDING DEFEASED BONDS**

<u>Bond Title</u>	<u>Dated Date</u>	<u>Initial Principal Amount</u>
Various Purpose Serial Bonds	December 1, 1967	6,915,000
Various Purpose Serial Bonds	December 1, 1968	7,930,000
Various Purpose Serial Bonds	February 1, 1971	6,200,000
G.O. Matching Fund Bonds	January 1, 1977	20,000,000
G.O. Matching Fund Bonds	April 28, 1978	9,000,000
G.O. Matching Fund Bonds	January 1, 1979	15,000,000
G.O. Matching Fund Bonds, Series C	August 15, 1984	35,000,000



## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST

The following is a summary of certain provisions of the Indenture of Trust dated as of June 1, 1992, by and between the Authority and United States Trust Company of New York, as Trustee. This summary is not a complete recital of the terms of the Indenture, and reference should be made to such Indenture for the complete terms. Words and terms used in this summary and not defined herein or elsewhere in this Official Statement have the same meanings as in the Indenture. Any section number references herein are to corresponding sections of the Indenture. The headings used herein are for convenience of reference only, and do not constitute a part of the Indenture for any other purpose.

#### **Authorization and Issuance of Bonds**

*Series 1992 A Bonds.* The Series 1992 A Bonds in an amount not exceeding \$215,125,000 have been authorized under the Indenture. The Indenture sets forth certain terms regarding issuance of the Series 1992 A Bonds, including interest payment and denomination of the Series 1992 A Bonds, payment of principal and Redemption Price of the Series 1992 A Bonds, and redemption of, and application of, proceeds of the Series 1992 A Bonds, all as more fully set forth in the Indenture. (Sec. 2.03)

*Series 1992 B Bonds.* The Series 1992 B Bonds in an amount not exceeding \$17,615,000 have been authorized under the Indenture. The Indenture sets forth certain terms regarding issuance of the Series 1992 B Bonds, including interest payment and denomination of the Series 1992 B Bonds, payment of principal and Redemption Price of the Series 1992 B Bonds, and redemption of, and application of, proceeds of the Series 1992 B Bonds, all as more fully set forth in the Indenture. (Sec. 2.04)

*Additional Bonds.* The Authority retains its right to issue other bonds, notes or other evidences of indebtedness that are not secured by the Indenture. (Sec. 2.05)

#### **Redemption of Bonds**

*Notice of Redemption.* When the Trustee shall receive notice from the Board, acting on behalf of the Authority, of its election or direction to redeem Bonds pursuant to the Indenture, and when redemption of Bonds is required or authorized pursuant to the Indenture, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed.

Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue

and be payable. Such notice shall be mailed by the Trustee by first class mail, postage prepaid, not more than 60 days nor less than 30 days before the redemption date, to each of the Owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but any defect in, or the failure of any Bondowner to receive, any such notice shall not affect the validity of the proceedings for the redemption of Bonds. Notwithstanding the foregoing, failure to mail any such notice to any particular holder of a Bond shall not affect the validity of any proceedings for the redemption of any other Bond. (Sec. 4.05)

### **Security for the Bonds**

The Bonds shall be special, limited obligations of the Authority payable solely from and secured as to the payment of the principal or Redemption Price, if any, thereof, and interest thereon, in accordance with their terms and the terms and provisions of the Indenture solely by, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, the Trust Estate. As security for the payment of the Bonds and the interest thereon, the Authority grants to the Trustee and unto its successors in the trusts hereunder, and to them and their successors and assigns forever, in all right, title and interest of the Authority in, to and under, subject to the terms and conditions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, each and all of the following (collectively referred to as the "Trust Estate"): (a) monies on deposit from time to time in all funds and accounts established by the Indenture (except the Rebate Fund and the Surplus Fund, as such terms are defined therein) including the investments, if any, thereof, and all income and proceeds derived from such investments (except as provided in the Indenture); and (b) the Government Loan Notes and the proceeds and collections therefrom; and (c) all right, title and interest of the Authority in the Loan Agreement, and all amendments, modifications and renewals thereof, reserving, however, the rights providing that notices and other communications be given to the Authority; (d) all right, title and interest of the Authority in the Revenues and (e) any and all other property or security interest therein, of every name and nature and from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, conveyed, transferred, mortgaged, pledged and assigned as and for additional security hereunder, by the Authority or anyone in its behalf pursuant to this Indenture or with its consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof. (Sec. 5.01 and Preamble)

The Authority has no taxing power and its debts are not debts of the Government of the Virgin Islands or any political subdivision of the Virgin Islands. No holder of the Bonds shall have the right to compel any exercise of the taxing power of the Government of the Virgin Islands to pay the principal of or interest on the Bonds. (Sec. 5.01)

### **Revenues and Funds**

*Bond Proceeds Fund.* The Indenture creates and establishes with the Trustee, a special trust fund to be held by the Trustee separate and apart from all other funds and monies held by it, designated as the "Bond Proceeds Fund".

The Indenture creates and establishes within the Bond Proceeds Fund separate accounts into which proceeds of the Bonds, to the extent set forth in the Indenture, are to be deposited. The amounts deposited in the Bond Proceeds Fund are to be applied by the Trustee as set forth in the Indenture.

Any interest or profits on deposits and investments in the Bond Proceeds Fund shall be retained therein, or at the written direction of the Authority, deposited in the Rebate Fund or applied, as directed by the Authority, as may otherwise be permitted by law. (Sec. 5.02)

*Revenue Fund.* The Indenture creates and establishes with the Trustee, a special trust fund to be held by the Trustee separate and apart from all other funds and monies held by it, designated as the "Revenue Fund".

The Trustee shall deposit all Revenues into the Revenue Fund, as received. In connection therewith, the Trustee shall deliver to the Special Escrow Agent under the Special Escrow Agreement and the Authority a certificate no later than 10 Business Days prior to October 1 of each Bond Year setting forth the Debt Service on the Bonds for October 1 and April 1 of such Bond Year and the amount, if any, necessary, together with amounts on deposit in the Debt Service Reserve Fund equal to the Debt Service Reserve Requirement.

Not later than the second Business Day next preceding October 1 of each Bond Year and thereafter from time to time as required, the Trustee shall transfer from the Revenue Fund:

(i) to the Bond Fund the amount, if any, required so that the balance in the Bond Fund shall equal the Debt Service on the Bonds for October 1 and April 1 of such Bond Year; and

(ii) to the Debt Service Reserve Fund from any remaining amount a sum equal to the amount necessary, together with the amounts already on deposit in the Debt Service Reserve Fund, to make the amount on deposit in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement.

If, for any Bond Year, the aggregate required transfers for such Bond Year have been made from the Revenue Fund to the Bond Fund in accordance with the Indenture, any remaining amounts on deposit in the Revenue Fund shall be transferred on or after such date at the written direction of the Authority, to the Rebate Fund or the Surplus Fund. (Sec. 5.03)

*Bond Fund.* The Indenture creates and establishes with the Trustee a special trust fund to be held by the Trustee separate and apart from all other funds and monies held by it, designated as the "Bond Fund".

Additional separate accounts within the Bond Fund may be established by a Supplemental Indenture in connection with the creation of a sinking fund or the orderly administration of the Bond Fund, all to the extent deemed necessary by the Authority. All amounts deposited in the Bond Fund, and not credited to a separate account therein, shall be applied by the Trustee equally and ratably to the payment of principal of, redemption premiums, if any, and interest on the Bonds as the same mature and become due and are not otherwise paid from a separate account.

The Trustee shall pay out of the Bond Fund on the Business Day next preceding each payment date for any of the Bonds to the Paying Agent the amount required for the interest payment on such date. The Trustee shall pay out of the Bond Fund on the Business Day next preceding each Principal Installment due date to the Paying Agents the amount required for the Principal Installment payable on such due date. On the Business Day next preceding any mandatory redemption date for Bonds to be redeemed, the Trustee shall pay out of the Bond Fund to the Paying Agents the amount required for the payment of Redemption Price and interest on the Bonds then to be redeemed.

Amounts in the Bond Fund with respect to any Sinking Fund Installment shall be applied by the Trustee to the redemption of Bonds of the maturity for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of such Sinking Fund Installment as hereinafter provided. As soon as practicable after the 60th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in the Indenture, on such due date Bonds of the maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of such Sinking Fund Installment, provided that for this purpose the principal amount of Bonds of such maturity theretofore delivered by the Authority to satisfy such Sinking Fund Installment as provided in this Section shall be credited against the amount of such Sinking Fund Installment.

In satisfaction, in whole or in part, of any Sinking Fund Installment, the Authority may purchase and deliver to the Trustee at least sixty days prior to the due date of such Sinking Fund Installment for cancellation, Bonds of the maturity for which such Sinking Fund Installment was established.

Upon any purchase pursuant to this Section of the Indenture, or redemption (other than a sinking fund redemption) pursuant to this Section of Bonds of any maturity for which Sinking Fund Installments have been established, unless the Authority shall direct otherwise, an amount bearing the same ratio to each such Sinking Fund Installment as (i) the total principal amount of such Bonds so purchased or redeemed bears to (ii) the aggregate principal amount of such maturity Outstanding prior to such redemption or purchase, shall be credited toward a part (an integral multiple of \$5,000) or all of any one or more Sinking Fund Installments thereafter to become due with respect to such Bonds; provided, however, that with respect to the final maturity of the Bonds, the amount referred to in clause (ii) shall be reduced by the amount then in the Debt Service Reserve Fund, but only to the extent of the aggregate principal amount of the final maturity scheduled to be paid at maturity. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

The Trustee shall, at any time at the written direction of the Authority, apply amounts available in the Bond Fund to pay the principal portion of Bonds of the maturity coming due in the then current year or Bonds of any maturity for which Sinking Fund Installments have been established which the Authority may purchase at a price no greater than the principal amount.

In the event of the refunding of any Bonds, the Trustee shall, if the Authority so directs in writing, withdraw from the Bond Fund all, or any portion of, the amounts accumulated therein with respect to Debt Service on the Bonds being refunded and deposit such amounts as directed in writing by the Authority to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter Bonds being refunded shall be deemed to have been paid pursuant to the Indenture, and (b) the amount remaining in the Bond Fund, after giving effect to the issuance of refunding bonds and the disposition of the proceeds thereof, shall not be less than the requirement of such Bond Fund.

The Trustee shall on the Business Day next succeeding each April 1 transfer any surplus amounts on deposit in the Bond Fund first, to the Debt Service Reserve Fund, a sum equal to the amount necessary, together with amounts already on deposit in the Debt Service Reserve Fund, to make the amounts on deposit in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund

Requirement and, at the written direction of the Authority, any remaining amounts to the Rebate Fund or the Surplus Fund. (Sec. 5.04)

*Debt Service Reserve Fund.* The Indenture creates and establishes with the Trustee a special trust fund to be held by the Trustee separate and apart from all other funds and monies held by it, designated as the "Debt Service Reserve Fund".

If on the Business Day preceding any interest payment date or Principal Installment due date the amount on deposit in the Bond Fund is not sufficient to pay the interest and Principal Installments payable on such dates, the Trustee shall forthwith withdraw from the Debt Service Reserve Fund an amount not exceeding the amount required (or all of the amount on deposit in the Debt Service Reserve Fund, if less than the amount required) to provide for such payment in full and deposit such amount in the Bond Fund for application to such payment.

If, at the time of valuation as provided in the Indenture, the moneys and Permitted Investments on deposit in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Fund Requirement, such excess shall, except as otherwise required by the Indenture, be deposited first, to the extent that the amount transferred to the Bond Fund from the Revenue Fund pursuant to the Indenture was less than the amount required to be transferred in the applicable Bond Year, in the Bond Fund and at the written direction of the Authority, any remaining amounts to the Rebate Fund or the Surplus Fund.

Unless otherwise directed in writing by the Authority, the Trustee shall purchase:

(i) the Permitted Investments listed in Part A of Appendix C to the Indenture with the moneys deposited in the Debt Service Reserve Fund on the date of initial issuance and delivery of the Bonds; and

(ii) the Permitted Investments from time to time upon the maturity or prior redemption of the Permitted Investments purchased pursuant to clause (i).

The investment instructions contained herein shall at all times be subject to the requirements set forth in the Indenture.

In the event of the refunding of any Bonds, the Trustee shall, if the Board so directs in writing, withdraw from the Debt Service Reserve Fund all, or any portion of, the amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with the Paying Agents as directed by the Authority to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter Bonds being refunded shall be deemed to have been paid pursuant to the Indenture, and (b) the amount remaining in the Debt Service Reserve Fund, after giving effect to the issuance of the refunding bonds and the disposition of the proceeds thereof, shall not be less than the Debt Service Reserve Fund Requirement. (Sec. 5.05)

*Rebate Fund.* The Indenture creates and establishes with the Trustee a special trust fund to be held by the Trustee separate and apart from all other funds and monies held by it, designated as the "Rebate Fund".

The Trustee shall establish and maintain within the Rebate Fund two separate accounts designated as the Excess Account and the Earnings Account. The Authority shall cause to be deposited in each account of the Rebate Fund such amounts as are required to be deposited therein pursuant to the

Tax Regulatory Agreement (which is incorporated therein by reference). Subject to the provisions of this Section, moneys held in the Rebate Fund are hereby pledged to secure payments to the United States government, and the Authority and the Bondowners shall have no rights in or claim to such moneys. The Trustee shall invest all amounts held in the Rebate Fund as directed by the Authority.

Upon receipt of a Written Order of the Authority, the Trustee shall remit part or all of the balance held in the Rebate Fund to the United States government as so directed. In addition, if the Authority so directs in writing, the Trustee shall deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or Funds as the Authority directs.

The Trustee shall conclusively be deemed to have complied with the provisions of the Indenture if it follows the written directions of the Authority and shall not be required to take any actions thereunder in the absence of written instructions from the Authority. (Sec. 5.07)

*Surplus Fund.* The Indenture creates and establishes with the Trustee a special trust fund to be held by the Trustee separate and apart from all other funds and monies held by it, designated as the "Surplus Fund".

The Trustee shall deposit into the Surplus Fund moneys required to be deposited therein pursuant to the Indenture, or to be deposited therein by the written direction of the Authority. Upon receipt of a Written Order by the Authority directing withdrawal of all or a portion of the moneys on deposit in the Surplus Fund, the amount so withdrawn shall be payable to, or at the direction of, the Authority as set forth in such Written Order. Moneys on deposit in the Surplus Fund, upon their deposit therein, are released from, and are free and clear of, the pledge and lien of this Indenture, and none of the Bondowners shall have any rights in or claim to such moneys. (Sec. 5.08)

*No Further Deposits.* Notwithstanding any provision of the Indenture to the contrary, so long as there shall be held in the Bond Fund and the Debt Service Reserve Fund, an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including principal or applicable Redemption Price thereof and interest thereon to the maturity or redemption date), no deposit shall be required to be made into any such Fund or account established under the Indenture. (Sec. 5.09)

## **Investment and Valuation**

*Investments.* So long as the Bonds are Outstanding and there is no Event of Default according to the provisions of the Indenture, moneys on deposit to the credit of the Bond Proceeds Fund, Revenue Fund, Bond Fund and Debt Service Reserve Fund shall, at the telephonic request of an Authorized Officer, confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested in accordance with such request by the Trustee in Permitted Investments, and moneys held in the Rebate Fund shall, at the telephonic request of an Authorized Officer, confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested in accordance with such request by the Trustee in the Permitted Investments described in subparagraph (i) of the definition thereof. The Trustee is entitled to rely on said instructions for purposes of this paragraph. If no such instructions are provided, the Trustee may, to the extent any such investment, if any, is made, invest such funds exclusively in Permitted Investments of the type described in subparagraph (i) of the definition thereof. Such investments shall have maturity dates, or shall be subject to redemption by the holder, at the option of the holder, on or prior to the dates the moneys invested therein will be needed for the purpose of such Funds. (Sec. 5.10)

*Valuation and Sale of Investments.* Permitted Investments purchased as an investment of moneys in the Revenue Fund or in the Bond Proceeds Fund, in the Bond Fund, in the Debt Service Reserve Fund shall be deemed at all times to be a part of such account or Fund and any profit realized from the liquidation of such investment shall be credited to such account or Fund and any loss resulting from the liquidation of such investment shall be charged to such account or Fund.

In computing the amount in any Fund or account created under the provisions of the Indenture for any purpose provided in the Indenture, obligations purchased as an investment of moneys therein shall be valued at the market value thereof exclusive of accrued interest. The valuation of the Debt Service Reserve Fund shall be made at least semiannually as provided in the Indenture, and, in addition, shall be valued at the time of any withdrawal from the Debt Service Reserve Fund pursuant to the applicable provisions in the Indenture.

Except in the case of gross negligence, the Trustee shall not be liable or responsible for making any investment or sale or redemption of Permitted Investments in the manner provided in the Indenture or for any loss resulting from any such investment or sale or redemption.

Investments in the various Funds may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in particular Funds amounts received or held by the Trustee, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds to which they are credited and otherwise as provided in the Indenture. (Sec. 5.11)

#### **Particular Covenants of the Authority**

*Creation of Liens.* The Authority covenants that, except as provided in the Indenture, for the benefit of Bondholders, the Authority will not create or cause to be created any lien or charge upon the Revenues, moneys, securities, funds and documents pledged in the Indenture. (Sec. 6.05)

*Other Covenants.* In addition, the Authority covenants that it will not consent to any amendment or modification of the covenants of the Government in the Loan Agreement with respect to the issuance of additional obligations of the Government secured by a pledge of Matching Fund Revenues and the transfer of Matching Fund Revenues from the Special Escrow Agent to the Trustee. The Authority covenants that it shall do all things necessary to enforce the terms and conditions of the Loan Agreement and the Government Loan Notes.

#### **Tax Covenants**

*Tax Covenants.* The Authority will not directly or indirectly use or permit the use of any proceeds of the Series 1992 A Bonds or any other funds of the Authority or take or omit to take any action that would cause the Series 1992 A Bonds (i) to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations which are "federally guaranteed" within the meaning of Section 149(b) of the Code or (ii), with respect to any Series 1992 A Bonds, the proceeds of which will be used, in whole or in part, to advance refund bonds, the interest on which is excludible from gross income pursuant to the provisions of Section 103(a), to fail to satisfy any of the requirements of Section 149(d) of the Code.

The Authority covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest represented by the Series 1992 A Bonds under Section 103 of the Code. The Authority will not directly

or indirectly use or permit the use of any proceeds of the Series 1992 A Bonds or any other funds of the Authority, or take or omit to take any action, that would cause the Series 1992 A Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Authority will comply with all requirements of Section 148 of the Code to the extent applicable to the Series 1992 A Bonds. In the event that at any time the Authority is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, the Authority shall so instruct the Trustee in writing, and shall cause the Trustee to take such action as may be necessary in accordance with such instructions. The Authority covenants that it shall not direct the Trustee to acquire a Permitted Investment if such acquisition would give rise to a "prohibited payment" for the purpose of Section 148(f) of the Code or would fail to satisfy the market price rules of Section 148 of the Code generally. (Sec. 6.06)

### **Remedies of Bondholders**

*Events of Default.* Each of the following events constitutes an "Event of Default" under the Indenture:

- (a) non-payment of interest on the Bonds when the same shall become due and payable; or
- (b) non-payment of the principal or Redemption Price of the Bonds or of a Sinking Fund Installment when the same shall become due and payable; or
- (c) failure, on the part of the Authority, to observe or perform in any material way any covenant, condition, agreement or provision contained in the Bonds or the Indenture on the part of the Authority to be performed other than those set forth in the Indenture, and such failure shall continue for thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Authority by the Trustee, which notice may be given by the Trustee in its discretion and shall be given by the Trustee at the written request of the Owners of not less than twenty-five percent (25%) in principal amount of all Bonds then Outstanding; providing, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected and an Authorized Officer of the Authority has delivered to the Trustee a certificate to that effect; or
- (d) an "Event of Default" as such term is defined in the Loan Agreement; or
- (e) the occurrence of an Act of Bankruptcy by the Authority;

then, unless the principal of all the Bonds shall have become due and payable otherwise than by acceleration, the Trustee may, and subject to the provisions of the Indenture, at the written request of the Owners of not less than 25% in principal amount of the Bonds Outstanding shall, by notice in writing delivered to the Authority and the Trustee, declare the principal of all Bonds then Outstanding to be due and payable immediately, and upon such declaration the said principal, together with interest accrued thereon to such date shall become due and payable immediately at the place of payment provided in the said notice, anything in the Indenture or in said Bonds to the contrary notwithstanding. The Trustee shall notify the Owners of the date of acceleration and its consequences in the same manner as for a notice of redemption. (Sec. 7.01)



*Proceedings by Trustee.* Upon the happening and continuance of any Event of Default the Trustee in its discretion may, and at the written request of the Owners of not less than 25% in principal amount of Bonds Outstanding shall, do the following:

(a) by mandamus or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of Bonds, and to require the Authority to carry out any other covenant or agreement with owners of Bonds and to perform its duties hereunder;

(b) bring suit upon the Bonds;

(c) by action or suit in equity to require the Authority and the Board thereof to account as if they were the trustees of an express trust, or to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and

(d) as a matter of right, have a receiver or receivers appointed for the Trust Estate and of the revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer. (Sec. 7.02)

*Rights of Owners.* Anything in the Indenture to the contrary notwithstanding, subject to the limitations and restrictions as to the rights of the Owners in the provisions of the Indenture upon the happening and continuance of any Event of Default, the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding shall have the right upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

The Trustee may refuse to follow any direction that conflicts with law or this Indenture or that would subject the Trustee to personal liability without adequate indemnification therefor. (Sec. 7.04)

*Restriction on Owner's Action.* In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Indenture, no Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under this Indenture or on said Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as hereinabove provided and unless the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding shall have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture; it being understood and intended that no one or more Owners of the Bonds secured by the Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner in the Indenture provided, and that all

proceedings at law or in equity shall be instituted, had and maintained in the manner in the Indenture provided, and for the equal benefit of all Owners of Outstanding Bonds; subject, however, to the provisions of this paragraph. Notwithstanding the foregoing provisions of this paragraph or any other provision of the Indenture, the obligation of the Authority shall be absolute and unconditional to pay, but solely from the Trust Estate, the principal and Redemption Price of, and interest on, the Bonds to the respective Owners thereof at the respective due dates thereof, and nothing herein shall affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment. (Sec. 7.05)

*Power of Trustee to Enforce.* All rights of action under the Indenture or under any of the Bonds secured by the Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceedings instituted by the Trustee shall be brought in its own name, as trustee, for the equal and ratable benefit of the owners of the Bonds subject to the provisions of the Indenture. (Sec. 7.06)

*Remedies Not Exclusive.* No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given under this Indenture or now or hereafter existing at law or in equity or by statute. (Sec. 7.07)

*Waiver of Events of Default; Effect of Waiver.* The Trustee may waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration, and shall in any event do so, upon the written request of the Owners of at least a majority in principal amount of all Outstanding Bonds, *provided, however*, that there shall not be waived (i) any event of default pertaining to the payment of the principal of any Bond at its maturity date or redemption date prior to maturity, or (ii) any event of default pertaining to the payment when due of the interest on any Bond, unless prior to such waiver or rescission, all arrears of principal (due otherwise than by declaration) and interest, with interest (to the extent permitted by law) at the rate per annum borne by the Bonds in respect of which such event of default shall have occurred on overdue installments of interest, and all arrears of payments of principal when due, as the case may be, and all expenses of the Trustee in connection with such event of default, shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such event of default shall be discontinued or abandoned or determined adversely, then and in every such case the Authority, the Trustee and the bondholders shall be restored to their former positions and rights under the Indenture. Further, if a declaration of acceleration is made pursuant to the Indenture, then and in every such case, the Trustee shall upon the written request of the Owners of at least a majority in principal amount of all Outstanding Bonds outstanding, rescind such declaration, and the consequences thereof, provided that at the time such declaration is rescinded: (A) no judgment or decree has been entered for the payment of any moneys due pursuant to the Bonds; (B) all arrears of interest on all of the Bonds and all other sums payable under the Bonds (except as to principal of, and interest on, the Bonds which has become due and payable by reason of such declaration) shall have been duly paid; and (C) each and every default hereunder shall have been waived pursuant to the preceding paragraph or otherwise made good or cured; and, provided further, that no such annulment shall extend to or affect any subsequent event of default or impair any right consequent thereto.

The Trustee shall not have any discretion to waive any Event of Default or rescind any declaration of acceleration made pursuant to the Indenture and its consequences except in the manner and subject to the terms expressed hereinabove.

If any Event of Default shall have been waived or declaration rescinded as herein provided, the Trustee shall promptly give written notice of such waiver or rescission to the Authority and shall give notice thereof by first class mail, postage prepaid to all Owners of Outstanding Bonds if such Owners had previously been given notices of such Event of Default; but no such waiver or rescission shall extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default, or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee and to the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient. (Sec. 7.08)

*Application of Moneys.* Any moneys received by the Trustee pursuant to the Indenture (including, without limitation, moneys received by virtue of action taken under the provisions of the Agreement but not including any funds held for the benefit of the Bondholders with respect to the optional redemption of the Bonds) shall, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows: (a) unless the principal of all of the Outstanding Bonds shall be due and payable, (i) to the payment of the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; (ii) to the payment of the persons entitled thereto of the unpaid principal and Redemption Price of any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provision of the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal and Redemption Price of such Bonds due on any particular date, then to the payment ratably, according to the amount due on such date, to the persons entitled thereto without any discrimination or privilege; and (iii) to be held for the payment to the persons entitled thereto as the same shall become due of the principal and Redemption Price of, and interest on, the Bonds, which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available shall not be sufficient to pay in full such principal and Redemption Price due on any particular date, together with interest then due and owing thereon, payment shall be made in accordance with (i) and (ii) above; (b) if the principal of all of the Outstanding Bonds shall be due and payable, to the payment of the principal, Redemption Price, and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, Redemption Price, or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal, Redemption Price, and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee shall give, by mailing by first class mail as it may deem appropriate, such notice of the deposit with it of any such moneys. (Sec 7.09)

## **Supplemental Indentures**

*Effective Without Consent of Bondowners.* For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture of the Authority may be entered into, which,

without the requirement of consent of Bondowners, shall be fully effective in accordance with its terms: (i) to add to the covenants and agreements of the Authority in the Indenture, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; (ii) to add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; (iii) to confirm, as further assurances, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of any moneys, securities of fund, or to establish any additional funds or accounts to be held under the Indenture; (iv) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture; (v) to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect; or (vi) to modify this Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939 or any similar Federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States. (Sec. 9.01)

*Effective With Consent of Bondowners.* Any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds thereunder, in any particular, may be made by a Supplemental Indenture, with the written consent (i) of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in the case less than all of the Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price, if any, thereof, or in the rate of interest thereon without the consent of the Owners of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondowners. For the purposes of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. (Sec. 9.02)

## **Defeasance**

If, among other things, the Authority shall pay or cause to be paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon in the manner set forth in the Indenture, then the right, title and interest of the Trustee and the Owners and the obligations of the Authority under the Indenture will cease, terminate and become void and be discharged and satisfied. Bonds or interest installments for the payment or redemption of which moneys shall have been irrevocably set aside and shall be held in trust by the Paying Agents (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the Indenture. Subject to the further provisions of the Indenture, any Outstanding Bonds shall, prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed above if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee instructions to mail notice of redemption of such Bonds

(other than Bonds which have been purchased by the Trustee at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to the Trustee as hereinafter provided prior to the mailing of such notice of redemption) on said date, (b) there shall have been set aside in trust, in compliance with the Act, an amount which shall be sufficient, or Permitted Investments (including any Permitted Investments issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, set aside in trust, in compliance with the Act, at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it instructions to mail a notice to the Owners of such Bonds that the Deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds (other than Bonds which have been purchased by the Trustee at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to the Trustee as hereinafter provided prior to the mailing of the notice of redemption referred to in clause (a) above). Any notice of redemption mailed pursuant to the preceding sentence with respect to Bonds which constitute less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, as and to the extent necessary, apply moneys set aside in trust, in compliance with the Act, pursuant to the Indenture to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Indenture. For the purposes of this Section, Permitted Investments shall mean and include only obligations listed in subsection (i) of the definition of Permitted Investments (including direct interests in the principal or interest of such obligations) and refunded securities listed in subsections (ii), (iii) and (iv) of the definition of Permitted Investments in the Indenture rated Aaa by Moody's and AAA by S&P, which securities shall not be subject to redemption prior to their maturity other than at the option of the owner thereof.

The Indenture provides that any moneys held by a Paying Agent in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Paying Agent at such date, or for two years after the date of deposit of such moneys if deposited with the Paying Agent after the said date when such Bonds became due and payable, shall, at the written request of the Authority, be repaid by the Paying Agent to the Authority, as its absolute property and free from trust, and the Paying Agent shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the Authority for payment of such Bonds; provided, however, that before being required to make any such payment to the Authority the Paying Agent shall, at the expense of the Authority, cause to be mailed to the Bondowners, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the Authority. (Sec. 11.01)

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE AMENDED AND RESTATED LOAN AGREEMENT

The following is a summary of certain provisions of the Amended and Restated Loan Agreement, dated as of June 1, 1992, by and between the Government of the Virgin Islands and the Authority (hereinafter the "Loan Agreement"). This summary is not a complete recital of the terms of the Loan Agreement, and reference should be made to such Loan Agreement for the complete terms. Words and terms used in this summary and not defined herein or elsewhere in this Official Statement have the same meanings as in the Loan Agreement.

*The Loan.* Under the Loan Agreement, the Authority and the Government of the Virgin Islands (the "Government") agree to amend and restate the terms and conditions of the Loan Agreement dated as of August 1, 1989, by and between the Government and the Authority, as amended as of September 1, 1989 and exchange simultaneously the 1989 Loan Notes for the 1992 Government Loan Note, Series A (the "Series A Note") and the 1992 Government Loan Note Series B (the "Series B Note") (collectively, the "Government Loan Notes") of the Government. The Government shall then repay to the Authority the Government Loan Notes in annual installments at a principal maturity schedule corresponding to that of the Authority's Bonds.

*Interest.* The Government Loan Notes shall bear interest from the issue date, payable semiannually on the Business Day preceding April 1 and October 1 of each year, commencing on the Business Day next preceding October 1, 1992, and on the final maturity of the Government Loan Notes.

*Redemption.* The Series A Note may, at the option of the Government, be redeemed, in whole or in part, prior to its maturity at the times and in the manner of and in the same maturities as an optional redemption on the Authority's Series 1992 A Bonds and at a redemption price equal to the principal amount, plus accrued interest thereon to the date of redemption and any premium required to provide for the payment of the optional redemption of the Authority's Series 1992 A Bonds, pursuant to the terms of the Indenture.

The Series B Note may, at the option of the Government, be redeemed, in whole or in part, prior to its maturity at the times and in the manner of and in the same maturities as an optional redemption on the Authority's Series 1992 B Bonds and at a redemption price equal to the principal amount, plus accrued interest thereon to the date of redemption and any premium required to provide for the payment of the optional redemption of the Authority's Series 1992 B Bonds, pursuant to the terms of the Indenture.

The Government Loan Notes shall be payable as to principal and interest in immediately available funds at the Corporate Trust Office of the Trustee or such other place as the Authority may designate in writing to the Government. Prior to October 1 of each Fiscal Year, the Government shall advance to the Trustee in the manner set forth above amounts sufficient to pay, or provide for the payment of, the principal of, and interest on, the Government Loan Notes payable with respect to the Business Day next preceding October 1 and April 1 of such Fiscal Year to be held by the Trustee for such payments.

*Application of Proceeds.* The Government caused the Authority to apply the proceeds of the 1989 Loan Notes as set forth in the Loan Agreement.

*Security.* THE GOVERNMENT OF THE VIRGIN ISLANDS PLEDGES ITS FULL FAITH AND CREDIT AND TAXING POWER TO THE PUNCTUAL PAYMENT OF THE PRINCIPAL OF, AND INTEREST ON, THE GOVERNMENT LOAN NOTES. Without limiting the generality of its pledge and general obligation in any way, the Government pledges to the payment of the principal of, and interest on, the Government Loan Notes, in accordance with United States Public Law 94-392, as amended, the revenues ("Matching Fund Revenues") to be received from the United States pursuant to the Revised Organic Act of the Virgin Islands, and in anticipation of the receipt of which the Government Loan Notes have been issued, subject to priority of payment of the principal of, and interest on, certain bonds or other obligations of the Government heretofore issued or guaranteed, or to be guaranteed, by the Government of the United States, pursuant to United States Public Law 94-392, but the Government Loan Notes shall be considered to be issued simultaneously and shall have equal priority and the Government Loan Notes shall have priority of payment of principal and interest out of the Matching Fund Revenues as to all non-guaranteed bonds or other obligations subsequently issued. THE GOVERNMENT LOAN NOTES ARE NOT DEBTS OF THE UNITED STATES OF AMERICA AND THE UNITED STATES OF AMERICA IS NOT LIABLE ON THE GOVERNMENT LOAN NOTES.

*Affirmative Covenants of the Government.* The Government covenants under the Loan Agreement, among other things, to perform and comply with all terms, covenants and conditions of the Loan Agreement and the Government Loan Notes and to pay all amounts payable by it hereunder and thereunder according to the terms hereof and thereof. In addition, the Government covenants to deliver to the Special Escrow Agent on the date of the issuance of the Notes a written order (the "Special Escrow Written Order") directing the Special Escrow Agent to deliver annually to the Trustee, on behalf of the Government, Matching Fund Revenues, to the extent available, in such amounts as requested by the Trustee pursuant to the Indenture, as payment on the Government Loan Notes.

*Negative Covenants of the Government.* Under the Loan Agreement, the Government covenants:

(a) that while the Government Loan Notes and the Bonds are outstanding it shall not revoke or amend in any way the Special Escrow Written Order or terminate the Special Escrow Agreement;

(b) that it shall not issue any bonds, notes or other evidences of indebtedness, other than the Government Loan Notes and the Special Tax Bonds, secured by Matching Fund Revenues ("Additional Subordinated Government Obligations"), nor create, or cause to be created, any lien or charge on Matching Fund Revenues, unless the average Matching Fund Revenues received by the Government in the three Fiscal Years prior to the Fiscal Year of the proposed date of issuance of such Additional Subordinated Government Obligations is at least 120% of the maximum aggregate amount of annual principal of and interest on the Government Loan Notes, the Special Tax Bonds, any outstanding Additional Subordinated Government Obligations and any proposed Additional Subordinated Government Obligations to be issued by the Government (in each case specifically without regard to any letter of credit or other credit enhancement commitments, fees and other obligations) in any twelve-month period after the proposed date of issuance of such Additional Subordinated Government Obligations; provided, however, the Government may issue Additional Subordinated Government Obligations without regard to the above referenced test if such Additional Subordinated Government Obligations are secured by an additional pledge of revenues of the Government other than Matching Fund Revenues and the average of such revenues collected by the Government for the three fiscal years prior to the Fiscal Year of the proposed date of issuance of such Additional Subordinated Government Obligations is equal to 1.75 times the annual average debt service of the Additional Subordinated Government Obligations; and provided, further, that no Additional Subordinated Government Obligations may be issued if the average Matching Fund Revenues received by the Government in the three Fiscal Years prior to the Fiscal Year of the



proposed date of issuance of such Additional Subordinated Government Obligations is less than 100% of the maximum aggregate amount of annual principal and interest on the Government Loan Notes, the Special Tax Bonds, any outstanding Additional Subordinated Government Obligations and any proposed Additional Subordinated Government Obligations to be issued by the Government (in each case specifically without regard to any letter of credit or other credit enhancement commitments, fees and other obligations) in any twelve-month period after the proposed date of issuance of such Additional Subordinated Government Obligations; and

(c) that it shall not directly, or indirectly, use or permit the use of any proceeds of the 1989 Loan Notes, the Series A Note and the Series 1992A Bonds or any other funds of the Government to take any action that would cause the 1989 Loan Notes, the Series A Note and the Series 1992 A Bonds to fail to satisfy any of the requirements of Section 149(d) of the Code.

Under the Loan Agreement, the Government also covenants not to take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest represented by the 1989 Loan Notes, the Series A Note and the Series 1992 A Bonds under Section 103 of the Code, not directly or indirectly use or permit the use of any proceeds of the 1989 Loan Notes and the Series A Note or any other funds of the Government, or take or omit to take any action, that would cause the 1989 Loan Notes, the Series A Note and the Series 1992 A Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. The Government covenants that it will comply with all requirements of Section 148 of the Code to the extent applicable to the Series A Note and the Series 1992 A Bonds. Without limiting the generality of the foregoing, the Government agrees that there shall be paid from time to time all amounts required to be rebated to the United States, pursuant to Section 148(f) of the Code, and any temporary, proposed or final Treasury Regulations as may be applicable to the 1989 Loan Notes and the Series A Note from time to time. This covenant shall survive payment in full or defeasance of the 1989 Loan Notes, the Series A Note and the Series 1992 A Bonds. The Government specifically covenants to pay or cause to be paid to the United States, at the times and in the amounts determined under the Loan Agreement, the Rebate Requirement.

*Events of Default.* The occurrence of any of the following events shall be an "Event of Default" under the Loan Agreement:

(a) non-payment, when due, of any amount payable by the Government on the Government Loan Notes or any other obligation so required under the Loan Agreement;

(b) failure, by the Government, to perform or observe any term, covenant or agreement contained in the Loan Agreement on its part to be performed or observed and any such failure shall remain unremedied for 30 days after written notice thereof, shall have been given to the Government by the Authority, provided, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Government within the applicable period and diligently pursued until the default is corrected;

(c) an "Event of Default" as that term is defined under the terms of the Indenture; or

(d) the occurrence of an "Act of Bankruptcy" by the Authority as that term is defined under the terms of the Indenture.

*Remedies.* If an Event of Default shall happen and shall not have been remedied, then unless the principal of the Government Loan Notes shall have become due and payable otherwise than by

acceleration, the Authority or any holder of the Government Loan Notes may, by notice in writing delivered to the Government, declare the principal of the Government Loan Notes then outstanding to be due and payable immediately, and upon such declaration, the said principal, together with interest accrued thereon to such date shall become due and payable immediately at the place of payment provided in such notice.

If an Event of Default shall happen and shall not have been remedied, then and in every such case, the holder of the Government Loan Notes may (i) sue to collect sums due under such Government Loan Notes; (ii) compel to the extent permitted by law, by mandamus or otherwise, the performance by the Government of any covenant made in the Loan Agreement or the Government Loan Notes; and (iii) examine the books and records of the Government to account for all monies and securities constituting the Matching Fund Revenues.

At any time and from time to time the Governor of the Virgin Islands, on behalf of the Government of the Virgin Islands, may execute a supplement to the Loan Agreement curing any ambiguity or curing, correcting or supplementing any defect or inconsistent provision contained in the Loan Agreement or making such provisions in regard to matters or questions arising in the Loan Agreement as may be necessary or desirable and as shall not materially adversely affect the interests of the holder of the Government Loan Notes. Such supplement shall become effective upon the filing with the Government of the Virgin Islands an instrument of the holder of the Government Loan Notes approving such supplement. In addition, the Governor of the Virgin Islands, on behalf of the Government of the Virgin Islands, may execute a supplement to the Loan Agreement at any time and from time to time modifying any provision of the Loan Agreement with the consent of the holder of the Government Loan Notes except as provided in the Indenture.

## APPENDIX E

### THE UNITED STATES VIRGIN ISLANDS - ECONOMIC AND DEMOGRAPHIC FACTORS

#### Location and Geography

The United States Virgin Islands are situated approximately 1,100 miles east-southeast of Miami and 1,600 miles southeast of New York City. Puerto Rico is approximately 40 miles west of St. Thomas and the British Virgin Islands are less than three miles northeast of St. John. Charlotte Amalie, St. Thomas is the capital of the United States Virgin Islands.

Of the three main islands of the Virgin Islands, St. Croix is the largest (84 square miles). St. Croix lies 40 miles south of St. Thomas and is known for its rolling hills and broad central plain which separates the relatively dry East End from the more tropical West End. St. Thomas (32 square miles) and St. John (20 square miles) are both distinguished by a rugged, mountainous topography with numerous sandy beaches and inlets along the shoreline.

#### Population and Income

Total population in the Virgin Islands increased from 1981 to 1985 but has declined since, from approximately 110,500 in 1985 to approximately 101,809 in 1990. Per capita income has steadily increased in recent years, totalling \$11,052 in 1989 and remains the highest of all Caribbean islands. The following table presents Virgin Islands population and per capita income data for the years 1981 through 1990.

UNITED STATES VIRGIN ISLANDS  
POPULATION AND PER CAPITA INCOME  
1981-1990

Year	Population	Percentage Increase (Decrease)	Per Capita Personal Income	Percentage Increase (Decrease)
1981	98,300	--	\$6,904	—
1982	101,500	3.2%	6,920	0.2%
1983	103,700	2.1	7,370	6.5
1984	107,500	3.6	7,554	2.5
1985	110,800	3.0	7,404	(2.0)
1986	109,500	(1.2)	7,881	6.4
1987	106,100	(3.1)	9,024	14.5
1988	103,200	(2.7)	9,749	8.0
1989	102,305	(0.8)	11,052	13.3
1990	101,809	(0.4)	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>

<sup>(1)</sup> Not Available.

Source: U.S. Virgin Islands Bureau of Economic Research

## Employment

Between 1981 and 1991, civilian employment increased nearly 9.5%. However, in 1991, employment decreased for the second time in eight years due to labor force demand following the Hurricane Hugo boom throughout 1990. Immediately following Hurricane Hugo, employment dropped over 8% before climbing nearly 14% to a post-Hurricane Hugo peak of 46,790 in July 1990. This recovery was led by the construction sector where employment nearly doubled due primarily to the reconstruction taking place. The unemployment rate has consistently been lower than the average for the United States. After reaching a record low in 1990, the unemployment rate increased one-tenth of a percentage point to 2.9% in 1991.

Virgin Islands employment is principally in the services industries. The bulk of employment is in tourism-related trade and services, which accounted for 43% of non-agricultural wage and salary employment in 1991. The next largest category is the Government of the Virgin Islands, which comprised 30 percent of total employment in 1991. The relatively large proportion of public sector employment and the fact that the Government of the Virgin Islands is the largest single employer on the Virgin Islands are the result of the Government of the Virgin Islands providing a full range of public services to a small population spread among three islands.

However, the number of employees in the trade and service sector of the economy has consistently exceeded the total number of government workers. The fastest growing employment category in 1991 was wholesale trade, increasing nearly 6% over the prior year.

The following table sets forth Virgin Islands employment by sector for the years 1983 to 1991:

### ANNUAL ECONOMIC INDICATORS WAGE AND SALARY EMPLOYMENT (number of jobs)

	1991	1990	1989	1988	1987	1986	1985	1984	1983
Non-agricultural wage & salary employment	42,940	43,140	42,010	41,470	39,620	37,720	36,890	36,600	36,380
Private sector	28,740	29,560	28,430	28,240	26,810	24,570	23,340	22,740	22,350
Construction & mining	2,620	3,750	2,730	2,330	1,990	2,350	1,880	2,270	2,400
Manufacturing	2,700	2,450	2,320	2,350	2,130	1,790	2,140	2,280	2,460
Transportation, comm. & public utilities	2,600	2,330	2,360	2,510	2,560	2,480	2,350	2,340	2,230
Wholesale & retail trade	9,960	9,660	9,500	9,550	9,310	8,640	8,030	7,900	7,540
Finance, insurance & real estate	2,220	2,140	2,030	1,960	1,770	1,580	1,590	1,790	1,610
Services	9,450	9,230	9,490	9,540	9,050	7,730	7,350	6,160	6,110
Federal government	770	880	820	730	690	670	650	630	620
Territorial government	12,620	12,700	12,760	12,500	12,120	12,480	12,900	13,230	13,410

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Source: Virgin Islands Bureau of Economic Research

## Tourism

The United States Virgin Islands is one of the largest cruise ship ports-of-call and tourist visitor destinations in the Caribbean. Total visitor arrivals have increased in every consecutive year since 1950, except for 1975, 1982 and 1989, in which years there was a recession or natural disaster.

The Virgin Islands Department of Economic Development and Agriculture estimates that expenditures by visitors to the Virgin Islands totalled \$708 million in 1991, compared with \$704.3 million in 1990. This figure includes tourists--those persons staying for one day or more--and excursionists--those persons staying for less than one day. The number of tourists and excursionists for 1990 and the expenditures of such tourists and excursionists were distorted by business travelers, relief workers and construction workers who were in the United States Virgin Islands for reasons related to Hurricane Hugo. In 1991, the Persian Gulf war and the recession reduced the total number of tourists to the Virgin Islands. The following tables show the growth in tourist and excursionist arrivals and expenditures in recent years.

### UNITED STATES VIRGIN ISLANDS VISITOR ARRIVALS (amounts in thousands)

<u>Calendar Year</u>	<u>Tourists</u>	<u>Excursionists</u>	<u>Total</u>
1981	343.7	931.3	1,275.0
1982	340.0	798.0	1,138.0
1983	345.0	868.7	1,213.7
1984	369.5	895.3	1,264.8
1985	411.6	903.9	1,315.5
1986	463.1	1,191.3	1,654.4
1987	541.8	1,376.0	1,917.8
1988	555.5	1,325.9	1,881.4
1989	506.7	1,257.3	1,764.0
1990	521.5	1,334.9	1,856.4
1991	511.8	1,430.9	1,942.7

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Source: Virgin Islands Bureau of Economic Research

**UNITED STATES VIRGIN ISLANDS VISITOR EXPENDITURES**  
(amounts in millions)

<u>Calendar</u> <u>Year</u>	<u>Tourists</u>	<u>Excursionists</u>	<u>Total</u>
1981	\$225.8	\$ 91.7	\$317.5
1982	238.1	80.6	318.7
1983	263.1	93.2	356.3
1984	308.8	131.3	440.1
1985	365.4	142.0	507.4
1986	386.6	123.2	509.8
1987	401.5	238.0	639.5
1988	411.6	248.0	659.6
1989	497.6	176.1	673.7
1990	515.6	188.8	704.4
1991	506.3	201.8	708.1

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Source: Virgin Islands Bureau of Economic Research

For the period up through calendar year 1988, the Virgin Islands tourism promotion program was buoyed by the U.S. expansion. In fiscal year 1989, about \$7.0 million was made available by the tourism revolving fund, supported by a 7.5 percent room revenue tax, for advertising and promotion. Immediately following Hurricane Hugo, a \$4.5 million appropriation from the General Fund was made bringing the total to \$11.5 million. This was one of the most important reasons why visitor arrivals recovered. Visitor air arrivals during 1990 and 1991 equalled 695,400 and 682,400, respectively. These were somewhat below the peak of 1988, 740,700. This may be entirely attributed to Hurricane Hugo, the Persian Gulf war and the U.S. recession. The 1991 results indicate that tourism and excursion visits have stabilized, as have overall visitor expenditures.

Numerous water recreational facilities are available on all three islands. The Virgin Islands possess fine beaches, and the extensive coral reefs of the area afford excellent snorkeling and scuba diving. The Virgin Islands serve as home port for yachtsmen and a substantial part of the charter sailing fleet in the Caribbean. The Virgin Islands' waters are recognized as a prime game fishing area. The Virgin Islands also have an underwater observatory on St. Thomas.

The Virgin Islands benefit from a \$1,200 duty-free exemption for articles purchased in the Virgin Islands and either mailed or brought back to the United States mainland from the Virgin Islands once each 30 days without regard to the length of stay abroad. In addition, each adult is permitted to return with up to one gallon of duty-free liquor as compared to one quart from other areas. In response to falling U.S. tariff rates and increased competition from Caribbean neighbors, local customs duties and excise taxes were removed from selected tourist-oriented merchandise in 1982. Prices of various luxury items, such as jewelry, china, cameras, leather goods, perfumes, watches, and clocks, range from 25% to 80% below the average United States mainland prices.

A recent landmark decision was to begin devoting 100 percent of the tourism revolving fund to advertising and promotion. Work has been underway to expand and strengthen marketing efforts to other parts of the country and international markets, especially Japan. To that end, the Territory has developed

programs to use the \$800,000 made available from a U.S. Department of Commerce Tourism Disaster Assistance Grant program. This grant is being focused on developing new international tourism.

### **Economy and Economic Development**

In 1986, the Reorganization Act of 1987 reorganized the Executive Branch of the Government of the Virgin Islands, enabling the Government to have more active control over economic policy. Economic growth in the Virgin Islands in the late 1980's has resulted in large part from the continued economic expansion in the United States, and employment growth throughout most of the decade was primarily due to continued strong growth in tourism.

Hurricane Hugo had a severe impact on the Virgin Islands economy during fiscal year 1990. This impact was felt most significantly in the tourism sector due to a loss of hotel rooms and damage to the Virgin Islands infrastructure. Temporary disruptions also occurred in the manufacturing sector. Total damages from the hurricane to public facilities, local infrastructure, businesses and residences exceeded \$1.5 billion. By early summer of 1990, however, most economic activity recovered to pre-hurricane levels. Of particular importance has been the construction sector, which participated directly in the rebuilding of many areas of the Virgin Islands.

Furthermore, the Government of the Virgin Islands' \$300 million capital program, which is being implemented over the next five years, along with other private resources available for rebuilding, is anticipated to have a significant positive impact on the Virgin Islands' economy over the next few years.

### **Construction and Real Estate**

During the early 1980's capital investment and the construction industry in the Virgin Islands showed a marked decline due to the economic recession in the United States. Since 1982, however, there has been significant improvement. This improvement is demonstrated by the substantial increase in the value of construction permits from \$58.4 million in 1982 to \$312 million in 1991. Although the value of permits is lower in 1991 than 1990, this is a result of the extraordinary rebuilding that occurred as a consequence of Hurricane Hugo. In addition, many property owners increased the size and value of their properties while rebuilding as evidenced by an increase in square footage in residential properties and increased operating capacity of businesses. Following Hurricane Hugo, growth in the construction sector has been fueled by monies received from the Federal Emergency Management Agency, United States Department of Education, private and public insurance settlements and other funds budgeted for capital expenditures by the Government of the Virgin Islands. The table below presents the value of construction permits in the United States Virgin Islands from 1981 to 1991.

**UNITED STATES VIRGIN ISLANDS  
VALUE OF CONSTRUCTION PERMITS  
1981 - 1991**

<u>Year</u>	<u>Value of Permit Virgin Islands (Millions)</u>	<u>Percentage Increase/ (Decrease)</u>	<u>St. Thomas/ St. John (Millions)</u>	<u>Percentage Increase/ (Decrease)</u>	<u>St. Croix (Millions)</u>	<u>Percentage Increase/ (Decrease)</u>
1981	\$ 62.7	--	\$ 32.1	--	\$ 30.6	--
1982	58.4	(6.9)	37.2	15.9	21.2	(30.7)
1983	69.4	18.8	48.6	30.6	20.8	(1.9)
1984	93.9	35.3	62.1	27.8	31.8	52.9
1985	120.4	28.2	56.8	(8.6)	63.6	97.8
1986	124.2	3.1	72.5	27.6	51.7	(18.6)
1987	206.4	66.2	138.6	91.3	67.0	29.4
1988	238.7	15.7	147.2	6.1	70.9	35.8
1989	211.0	11.6	110.2	(25.1)	100.9	10.9
1990	380.1	80.1	190.1	72.5	190.0	88.4
1991	312.0	(17.9)	190.7	0.3	120.7	(36.5)

Source: Virgin Islands Bureau of Economic Research

The following table presents the largest private sector employers in the Virgin Islands.

**LARGEST EMPLOYERS OF THE U.S. VIRGIN ISLANDS**

<b>Name of Employer</b>	<b>Number of Employees</b>
CBI Company Ltd.	180
United Dominion	543
Hess Oil V.I. Corp.	777
Pitt Des Moines	50
Virgin Islands Alumina Co. (VIALCO)	230
V.I. Industrial Maintenance Corporation	1,348
Xtra Supermarkets	1,191
Camino Del Mar	115
Caneel Bay, Inc.	715
Virgin Islands Telephone Corporation (VITELCO)	493

Source: Virgin Islands Department of Labor, Bureau of Labor Statistics



## **Tax Incentive Programs**

### *General*

The Government of the Virgin Islands and the United States government offer various tax incentives to promote industrial development of the manufacturing sector in the Virgin Islands. The most notable incentive programs are detailed below.

### *Industrial Development Commission*

In October 1975, the Legislature created the Industrial Development Commission (the "Commission") to promote the growth, development and diversification of the economy of the Virgin Islands. The Commission is empowered to provide tax relief to qualified persons or corporations investing \$50,000 or more and creating 10 or more jobs in industries that will advance the economic well-being of the Virgin Islands and its people.

This tax relief includes both exemptions and subsidies which can be taken by the qualified person, partnership or corporation at 100% of their value for ten years, or at a decreasing proportion of their value over 20 years. The benefits granted by the Commission can also be extended for up to 15 years if the qualified person or corporation agrees to locate its business in an area designated as "economically depressed." Currently, 73 enterprises are operating with incentive benefits granted pursuant to the Industrial Development Program and an additional nine enterprises are awaiting final certification.

### *Section 936*

Under Section 936 of the Internal Revenue Code of 1986 United States corporations that meet certain requirements and elect its application ("Section 936 corporations") are entitled to credit against their United States corporate income tax the portion of such tax attributable to (i) income derived from the active conduct of a trade or business within the Virgin Islands ("active business income") or from the sale or exchange of substantially all assets used in the active conduct of such trade or business, and (ii) qualified possession source investment income ("passive income").

## **Economic Development Projects Status**

### *Economic Development Planning*

The economic development planning process involves the traditional stages of information gathering, community assessment, identification of opportunities for improvement or change and strategies for intervention. This planning document, the Overall Economic Development Plan (OEDP), is in response to two needs: the need to expand the Comprehensive Development Plan which is being produced by the Department of Planning and Natural Resources; and to comply with the federal Economic Development Administration's program of community development. The final drafting of this plan will soon be completed.

Development of this plan was facilitated by grants from two federal agencies: the federal Economic Development Administration and the Department of the Interior for a total of \$150,000. The OEDP and the Comprehensive Development Plan will serve to guide development policy in the Territory for the near future.

### *Economic Development Committee*

Recognizing that development and change are the necessary consequences of a prospering community, the Governor recently established a 15 member Economic Development Committee. The committee members were solicited from the public and private sectors and have been evaluating plans and projects that affect the economic health of the Territory.

### *Special Economic Development Projects*

**Beach Authority Feasibility Study** - Recognizing that the environmental quality of the beaches is a critically important asset for promoting tourism in the Territory, the Department of Economic Development and Agriculture has organized an ad hoc committee to determine the feasibility of establishing a beach authority. Using Magens Bay authority as a guide, the participants agreed that a planning and management body needs to be created which specifically addresses the problems with the beaches. A set of recommendations is being developed which will specify the structure of the "authority" and proposed financing mechanism for its development.

**Market Square Farmers Market** - Market Square is under-utilized as a potential site for a farmers market, retail facility. Given its proximity to the commercial area and residents in downtown Charlotte Amalie, a feasibility analysis and construction program is being performed to explore expanding the community productivity of the facility. The Department of Planning and Natural Resources is providing Community Development Block Grant funds for the implementation of this development project.

**Bordeaux Land Use Development Project** - The Office of the Commissioner and the Bureau of Economic Research have been actively engaged in assisting the Livestock Association in obtaining a lease to the 121 acres that has been designated by the Governor as agriculture reserved land in Estate Bordeaux. The survey for the land is being funded by the Community Development Block Grant Funds administered by Planning and Natural Resources. A land use plan will determine the best agricultural use of each plot, identify the proximity of competitive horticultural and livestock uses within the 121 acres, and identify environmental assets and constraints towards development of acceptable uses on the Bordeaux estate.

**Bonne Esperance Community Facility** - Closely related to the production of livestock and produce on Estate Bordeaux, is the proposed development of the ruins located on Estate Bonne esperance. Again, the Office of the Commissioner and the Bureau of Economic Research are assisting the Livestock Association with a lease to the land as well as funding for a farm museum, retail facility, class room facility and tourist attraction at the site.

**Community Development Initiative** - A proposal is being developed by the Bureau of Economic Research to address the orientation of broad goals, policies and strategies leading to economic development. Effectively, consideration of this reorientation will redefine economic development to be measured by much more than the widely popular though simple job creation measure. Focus will move from simply creating jobs to developing goals, strategies and policies to increase the standard of living of the household and the three cohorts within the household; the elderly, employed adults and children. Should this evaluation activity be adopted, economic development may come to be measured by variables indicating advance in quality and standard of living of each cohort. For example, for the elderly this might mean the level and quality of available health care, nutrition and recreation. For employed adults, it will include job creation, but also consider the wage rate at which these jobs are created. It is well known that jobs created at the minimum wage often allow that employed person to remain eligible to

receive social welfare benefits such as food stamps. Finally, for children, the quality and value added of education, nutrition and recreation would be critical indicators.

## **Utilities**

Water and electricity is provided by the Virgin Islands Water and Power Authority. The Virgin Islands Water and Power Authority (the "Water and Power Authority") was created in 1964 by the Virgin Islands Water and Power Authority Act, Chapter 5 of Title 30 of the Virgin Islands Code, as amended (the "Water and Power Authority Act") as an instrumentality of the Virgin Islands Government for the purpose of developing and utilizing adequate water and electric power systems for the people of the Virgin Islands. The Water and Power Authority is a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government of the Virgin Islands. In 1965, the Water and Power Authority acquired electric power generation and distribution facilities and water production facilities from the Virgin Islands Corporation, an instrumentality of the United States, at a total cost of \$9,500,000.

Pursuant to the Water and Power Authority Act, the Water and Power Authority is authorized to undertake, among other things, the construction, reconstruction and improvement of power supply and distribution systems, including distillation plants, plants for generating electricity by any means, distribution lines and other structures and equipment, and to determine, charge and collect reasonable rates, fees and other charges for the use of its facilities or for the services, water, electric power or other commodities rendered or furnished by it. The Water and Power Authority's rates for electric power are, however, subject to regulation by the Virgin Islands Public Services Commission.

The Water and Power Authority operates both the Electric System and the Water System. The Electric System serves over 41,000 customers on St. Thomas, St. John, St. Croix, Water Island and Hassel Island. The Water and Power Authority maintains separate accounts for the Electric and Water Systems and each System has its own financial statements. In addition, the two Systems are separately financed, with the revenues of the Water System pledged to the repayment of the Water System's indebtedness and the revenues of the Electric System pledged to the repayment of the Electric System's indebtedness. The two Systems do, however, share common administrative and operating personnel, and a substantial portion of each System's operating expenses are initially incurred by the Electric System, which bills the Water Systems for its share. On January 1, 1988, pursuant to Act No. 5265, the Government Reorganization and Consolidation Act of 1987, the Government of the Virgin Islands transferred title to the Distribution System to the Water and Power Authority. The Water and Power Authority had previously wholesaled water to the Distribution System which was owned and operated by the Government of Virgin Islands.

## **Transportation**

The Virgin Islands are accessible by air from around the world. The Cyril E. King Airport on St. Thomas is undergoing the expansion of its runway, financed in part by an issue of \$35 million Airport Revenue Bonds in May 1989. A portion of the Airport Revenue Bonds will also finance airfield improvements at the Alexander Hamilton Airport on St. Croix.

The island of St. John can be reached by seaplane. All major cruiselines and local ferry services operate year round making ocean transportation a functional part of the overall transportation system of the Virgin Islands. Inter-island ferry service provides daily passenger service between St. Thomas and St. John and between St. Thomas and the nearby British Virgin Islands. Between St. Thomas and St.

Croix, there is both hydrofoil and high-speed catamaran passenger service. The Virgin Islands transportation needs are served by a large number of taxis, taxivans, open-air buses and rental cars.

## APPENDIX F

### FORM OF PROPOSED OPINION OF BOND COUNSEL

Upon delivery of the Bonds, Bond Counsel proposes to issue its approving opinion in substantially the following form:

Rogers & Wells  
200 Park Avenue  
New York, New York 10166

July 8, 1992

Virgin Islands Public Finance Authority  
Government House  
21-22 Kronprindsens Gade  
Charlotte Amalie, St. Thomas  
United States Virgin Islands 00802

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Virgin Islands Public Finance Authority (the "Issuer") of \$215,125,000 Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands General Obligation/Matching Fund Loan Notes) Series 1992 A (the "Series 1992 A Bonds") and \$17,615,000 Virgin Islands Public Finance Authority Revenue Refunding Bonds (Virgin Islands General Obligation/Matching Fund Loan Notes) Series 1992 B (the "Series 1992 B Bonds" and together with the Series 1992 A Bonds, the "Bonds") issued pursuant to the Revised Organic Act of the Virgin Islands (48 U.S.C.A. 1574-1574c), as amended, 1988 V.I. Acts No. 5365, as amended (the "Act"), and the Indenture of Trust (herein called the "Indenture"), dated as of June 1, 1992, by and between the Issuer and United States Trust Company of New York, as trustee.

The Bonds are being issued for the purpose of providing for the refunding of the Authority's Revenue Bonds (Virgin Islands General Obligation/Matching Fund Loan Note) Series 1989A and Series 1989B, and to pay certain costs of issuance in connection with the Bonds.

The Bonds are dated, mature on the dates in the principal amounts, are subject to redemption prior to maturity, bear interest at the rates and are payable and subject to such other terms as provided in the Indenture.

We have examined and relied upon a record of proceedings of the Issuer in connection with the authorization and issuance of the Bonds and have made such investigation of law and such other and further review, inquiry or examination as we have deemed necessary or desirable in rendering the opinions set forth herein. In addition to the foregoing, we have relied upon the agreements, certificates, representations, documents and opinions, including those of the various parties and their representatives participating in the transaction, furnished to us. We have not undertaken an independent audit or investigation of the matters described or contained in the foregoing agreements, certificates, representations, documents and opinions.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof, it is our opinion that:

1. The Issuer is duly created and validly existing under the provisions of the Act.
2. The Indenture has been duly and lawfully executed by the Issuer, is in full force and effect and is valid and legally binding upon the Issuer, enforceable in accordance with its terms. The Indenture creates the valid pledge that it purports to create of the Trust Estate, as defined in the Indenture, subject to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth in the Indenture.
3. The Bonds are valid and binding special, limited obligations of the Issuer, payable solely from the sources provided thereof in the Indenture, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Act, and the Bonds have been duly and validly authorized and issued in accordance with the Act and the Indenture.
4. Under existing statutes and court decisions, (i) interest on the Series 1992 A Bonds is not included in gross income of the owners thereof for Federal and Virgin Islands income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) such interest will not be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however, is included in the adjusted current earnings of a corporation for the purposes of computing the alternative minimum tax imposed on corporations. The opinion expressed in clause (i) of the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 1992 A Bonds in order that interest thereon be (or continue to be) excluded from gross income for Federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Series 1992 A Bonds to be so included in gross income retroactive to the date of issuance of the Series 1992 A Bonds. The Issuer has covenanted to comply with all such requirements. We express no opinion regarding other Federal income tax consequences arising with respect to the Series 1992 A Bonds.
5. Under existing statutes, interest on the Series 1992 A Bonds is exempt from personal income taxes imposed by any state, other territory or possession of the United States or any political subdivision thereof, or by the District of Columbia.
6. Under existing statutes, interest on the Series 1992 B Bonds is exempt from personal income taxes imposed by any state of the United States or any political subdivision thereof, or by the District of Columbia.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds and the Indenture may be subject to applicable bankruptcy, insolvency, reorganization, moratorium

Virgin Islands Public Finance Authority  
July 8, 1992  
Page 3

and other similar laws affecting creditors' rights, heretofore or hereinafter enacted, to the application of equitable principles and to exercise of judicial discretion in appropriate cases.

Very truly yours,

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Audited Financial Statements and  
Other Financial Information

Virgin Islands Public  
Finance Authority

September 30, 1990

Audited Financial Statements and  
Other Financial Information

Virgin Islands Public Finance Authority

September 30, 1990

Audited Financial Statements

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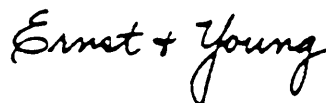
## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Virgin Islands Public Finance Authority

We have audited the accompanying balance sheet of the Virgin Islands Public Finance Authority (the "Authority") as of September 30, 1990, and the related statements of revenues, expenses and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Virgin Islands Public Finance Authority at September 30, 1990, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.



October 18, 1991

BALANCE SHEET

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

September 30, 1990

ASSETS

Cash--Note C	\$ 443,832
Loans receivable--Note D	214,545,000
Interest receivable	537,278
Bond issuance costs	1,242,884
Restricted Assets--Note C	
Cash	8,899,461
Investments	63,355,629
Interest receivable	654,004
Assets Held in Trust--Note E	
Cash	1,526
Investments	100,000
Pooled investments	89,734,182
Interest receivable	6,345
	<u>\$379,520,141</u>

LIABILITIES AND EQUITY

LIABILITIES

Bonds payable--Note F	\$244,740,000
Accrued expenses	658,086
Due to VI Government	3,521,322
Payable from:	
Restricted assets	37,096,101
Assets held in trust	84,143,681
	<u>370,159,190</u>

EQUITY

Retained Earnings	
Restricted--Note G	8,384,693
Unrestricted	976,258
	<u>9,360,951</u>
	<u>\$379,520,141</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND RETAINED EARNINGS

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

YEAR ENDED SEPTEMBER 30, 1990

REVENUES

Taxes, fees and fines	\$ 9,568,619
Interest income:	
Loans receivable	16,740,864
Investments	11,544,757
Other	<u>39,841</u>
	37,894,081

EXPENSES

Interest	18,578,162
General and administrative	1,922,860
Letter of credit fees	1,706,677
Transfers to VI Government	6,423,081
Amortization of bond issuance costs	<u>73,111</u>
	28,703,891

Net Income	9,190,190
Retained earnings at beginning of year	<u>170,761</u>

RETAINED EARNINGS AT END OF YEAR \$ 9,360,951

See notes to financial statements.

STATEMENT OF CASH FLOWS

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

YEAR ENDED SEPTEMBER 30, 1990

OPERATING ACTIVITIES

Net income	\$ 9,190,190
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of bond issuance costs	73,111
Changes in operating assets and liabilities:	
Increase in interest receivable	(537,278)
Increase in cash and other assets held in trust	(4,074)
Increase in accrued expenses	534,487
Increase in due to VI Government	3,521,322
Increase in payable from restricted assets	13,433,006
Distribution to Housing Construction Revolving Fund	(3,312,943)
Other increases in payable from assets held in trust	<u>16,843,098</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>39,740,919</u>

INVESTING ACTIVITIES

Purchase of investments	(339,999,820)
Investment maturities	271,691,383
Loans granted	(500,000)
Principal payments on loans	<u>4,155,000</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(64,653,437)</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Net proceeds from sale of bonds	27,924,005
Principal payments on bonds	<u>(2,700,000)</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>25,224,005</u>

Increase in cash	311,487
Cash at beginning of year	<u>132,345</u>
CASH AT END OF YEAR	<u>\$ 443,832</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

September 30, 1990

#### NOTE A--AUTHORIZING LEGISLATION AND ORGANIZATION

The Virgin Islands Public Finance Authority (the "Authority") was created by Virgin Islands Act No. 5365, "The Government Capital Improvement Act of 1988", for the purposes of aiding the Government of the Virgin Islands (the "Government") in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, the 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, (iv) to establish one or more revolving loan funds with the proceeds of bonds issued by the 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.

For financial reporting purposes, the Authority is a component unit of the Government of the Virgin Islands.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation

The accompanying financial statements have been prepared on the enterprise fund concept. Accordingly, the financial statements have been prepared in accordance with generally accepted accounting principles.

##### Description of Accounts

The activities of the Authority are segregated into the following accounts:

Operating Account: The Operating Account was established for purposes of depositing funds available to the Authority for payment of administrative expenses, other operating expenses, and expenses not associated with specific bond accounts or trustee activities.

Revenue Bonds Series 1989 A and 1989 B Account: Activities related to the Revenue Bonds Series 1989 A and Series 1989 B are recorded in this Account. The Series 1989 A bonds were issued to refund all outstanding General Obligation and General Obligation Matching Fund Bonds issued by the Government prior to fiscal year 1989. The Series 1989 B bonds were issued to provide funding for certain capital projects in the Virgin Islands.

Government Construction and Revolving Loan Account: Proceeds of the Series 1989 B bonds were deposited with the Authority to make distributions to the Government and loans to agencies, instrumentalities, commissions, authorities and political subdivisions of the Government for the purpose of financing capital projects approved by the Legislature or otherwise authorized by law.

NOTES TO FINANCIAL STATEMENTS--Continued

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Transportation Trust Fund Account: Activities related to the Highway Revenue Bonds (Transportation Trust Fund) Series 1989 are recorded in this Account. These bonds were issued to provide funding for the maintenance, improvement, repair and construction of the road and highway system in the Virgin Islands.

Depository Trust Account: Funds deposited with the Authority for investment purposes by the Government or any agency, authority or instrumentality thereof are recorded in the Depository Trust Account.

Investments

Investments are carried at amortized cost. Premiums and discounts are amortized (accreted) over the terms of the underlying investment under the interest method.

Investments are restricted by various bond resolutions of the Authority and the Act, generally, to direct obligations of the U.S. Government, the Virgin Islands, or any state, territory, possession or Commonwealth of the United States, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual fund, trust or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing.

Earnings on investments restricted for debt service obligations are retained in the Revenue Bond Series 1989 A and 1989 B Account until the valuation date (see Note F). At the valuation date excess earnings, if any, may be transferred to the Rebate and Surplus Indenture Accounts. The Authority is authorized under the Indenture to withdraw funds from the Surplus Account for operating expenses.

Earnings on investments restricted for debt service obligations in the Transportation Trust Fund are retained in the Debt Service Reserve Account until the valuation date (see Note F). Excess earnings in the Transportation Trust Fund Accounts may be transferred to the Rebate Account or may be used for any other purpose permitted by law.

Investment operations consist largely of short-term, highly liquid investments, thus, all investments are treated as such rather than as cash equivalents in the accompanying financial statements.

Operating Transfers

Operating transfers include distributions to the Government of the Virgin Islands from excess revenues on the Transportation Trust Fund.

Principal and Interest Payments

All principal and interest payments made on October 1, 1990 for bonds payable are included in the operations for fiscal year 1990.



NOTES TO FINANCIAL STATEMENTS--Continued

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

NOTE C--CASH AND INVESTMENTS

The Authority utilizes a cash and investment pool to manage certain investments. Although investments from different bond issuances and investments held for the Government may be combined within the pool, separate records are maintained of each account within the pool.

Earnings on pooled investments are allocated to each bond and depository account based on the percentage of each account's investments in the pool to total investments in the pool.

Cash

At September 30, 1990, the carrying amount of the Authority's unrestricted cash was \$443,832 all of which was insured by federal depository insurance or collateralized by investment securities held by the banking institutions.

Investments

Investments include unrestricted investments, restricted investments and investments held in trust.

Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in reserve accounts controlled by the Authority, and may be used only for the payment of principal, interest and credit bank fees on the Series 1989 A and 1989 B bonds and the Transportation Trust Fund bonds. Cash and investments in the reserve accounts at September 30, 1990 was as follows:

	Revenue Bond Series 1989 A and 1989 B	Transportation Trust Fund	Total
<u>Restricted:</u>			
Debt service reserve	\$18,317,600	\$2,924,112	\$21,241,712
Credit bank fees reserve	1,626,144	-----	1,626,144
Draw reimbursement account	2,114,093	-----	2,114,093
Revenue fund	17,246,301	-----	17,246,301
Construction and bond funds	-----	26,493,916	26,493,916
Transportation fund	-----	3,512,262	3,512,262
<u>Unrestricted:</u>			
Surplus fund	<u>20,662</u>	<u>-----</u>	<u>20,662</u>
	<u>\$39,324,800</u>	<u>\$32,930,290</u>	<u>\$72,255,090</u>

These investments may be categorized into three levels to provide an indication of risk assumed. These categories are as follows:

NOTES TO FINANCIAL STATEMENTS--Continued

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

NOTE C--CASH AND INVESTMENTS--Continued

Category 1 - Includes deposits and investments that are insured, registered, collateralized, or for which the securities are held by the Authority or its agent in the Authority's name.

Category 2 - Includes deposits and investments that are uninsured, unregistered or uncollateralized for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name.

Category 3 - Includes deposits and investments that are uninsured, unregistered, or uncollateralized for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Authority's name.

Restricted cash and investments, separated by category, as of September 30, 1990, were as follows:

Deposits

<u>Type</u>	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Restricted Cash	<u>\$8,899,461</u>			<u>\$8,899,461</u>

<u>Investments</u>	<u>Category</u>			<u>Carrying Amount</u>	<u>Approximate Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Commercial Paper	\$23,495,831			\$23,495,831	\$23,488,000
U.S. Treasury Notes	24,869,139			24,869,139	24,927,000
U.S. Treasury Bills	2,922,006			2,922,006	2,922,000
Federal Home Loan Mortgage Corporation Discount Note	7,048,434			7,048,434	7,048,000
Federal National Mortgage Association Discount Notes	1,498,864			1,498,864	1,520,000
Money Market Funds	<u>3,521,355</u>			<u>3,521,355</u>	<u>3,521,000</u>
Total Investments	<u>\$63,355,629</u>			<u>\$63,355,629</u>	<u>\$63,426,000</u>
Total Deposits and Investments	<u>\$72,255,090</u>			<u>\$72,255,090</u>	

NOTES TO FINANCIAL STATEMENTS--Continued

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

NOTE D--LOANS RECEIVABLE

The Authority loaned the proceeds of the Series 1989 A and 1989 B bonds to the Government. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same base interest rates, maturities, and repayment terms as the bonds payable (see Note F). The Government also reimburses the Authority for credit bank fees.

During fiscal year 1990, the Authority loaned \$500,000 to the Virgin Islands Port Authority (the "Authority"). The Port Authority loan bears interest at 8.45% and matures on October 1, 1995.

NOTE E--ASSETS HELD IN TRUST

As of September 30, 1990, the Authority managed the following for the Government and a Virgin Islands Government Agency:

	<u>Carrying Amount</u>	<u>Approximate Market Value</u>
Virgin Islands Government:		
Cash	\$ 1,526	\$ 1,500
Maine Educational Loan Marketing Corporation	100,000	100,000
Pooled Investments	72,006,567	72,330,000
Virgin Islands Government Agency:		
Pooled Investments	<u>17,727,615</u>	<u>17,807,000</u>
	<u>\$89,835,708</u>	<u>\$90,238,500</u>

These restricted assets may be categorized to provide an indication of risk assumed. The risk categories are described in Note C. All of the above investments are included in Category 1.

NOTE F--BONDS PAYABLE

The Authority issued the Revenue Bonds Series 1989 A on August 24, 1989, and the Revenue Bonds Series 1989 B on September 28, 1989. The Bonds issued are secured by a letter of credit and are not guaranteed by the Government. The Government has pledged certain revenues, as discussed below to repay the loans to the Authority.

The Authority issued the Highway Revenue Bonds (Transportation Trust Fund) Series 1989 on November 30, 1989. These bonds are not guaranteed by the Government.

NOTES TO FINANCIAL STATEMENTS--Continued

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

NOTE F--BONDS PAYABLE--Continued

The proceeds of the Highway Revenue Bonds were applied as follows:

Deposit to debt service reserve	\$ 2,924,000
Bond issuance expenses	1,316,000
Deposit to construction account	<u>25,000,000</u>
Total proceeds applied	<u>\$29,240,000</u>

Pledged Revenues

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the Authority's notes receivable, and to the payment of credit bank fees on the Revenue Bonds Series 1989 A and B bonds.

The Secretary of the United States Department of Treasury makes certain transfers to the Government of substantially all excise taxes imposed and collected under the internal revenue laws of the United States in any fiscal year on certain products produced in the Virgin Islands (primarily rum), and exported to the United States from the Virgin Islands. The amount required to be remitted to the Government by the Secretary of the Treasury is an amount no greater than the total amount of local revenues (primarily taxes) collected by the Government in each fiscal year. As a result, the term "Matching Fund Revenues" is used to denote these payments.

Estimated prepayments of Matching Fund Revenues are made to the Government prior to the beginning of each fiscal year, subject to adjustment for the amount of local revenue actually collected by the United States Department of Treasury during such year. Such adjustments are made to the estimated prepayments for a subsequent fiscal year.

In the event that the Matching Funds received from the United States Department of Treasury are less than 110% of the succeeding year's debt service and credit bank fees requirements, the Authority is required to establish a Special Reserve Account under the indenture. The Trustee must deposit in the Special Reserve Account all earnings from the debt service reserve account up to 25% of the average annual debt service requirements. These deposits will continue until the Matching Funds have exceeded 110% of the debt service requirements for three successive years.

Matching Funds received on October 1, 1990, amounted to 130% of the fiscal year 1990 debt service and credit bank fees requirements. Accordingly, no amounts were transferred to the Special Reserve Account.

The Government has pledged motor fuel taxes, highway users' taxes, motor vehicle registration fees and drivers' license fees, and traffic law violation fines to the timely payment of principal and interest on the Highway Revenue (Transportation Trust Fund) Series 1989 Bonds. These revenues are deposited in a trust account upon collection, and are transferred to the Bond Fund and Debt Service Reserve Fund, until fully funded. When the balances in the Bond Fund and Debt Service Reserve Fund are sufficient to meet debt service requirements, the revenues may be used for expenses of the Transportation Trust Fund. Any remaining surplus is transferred to the Government.

NOTES TO FINANCIAL STATEMENTS--Continued

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

NOTE F--BONDS PAYABLE--CONTINUED

A summary of bond activity during fiscal year 1990 follows:

	Revenue Bonds Series 1989		Highway Revenue Bonds	Total
	A	B		
	(In Thousands)			
Balance at September 30, 1989	\$141,310	\$76,890	\$ -0-	\$218,200
Bonds issued			29,240	29,240
Principal payments	(10)	(1,555)	(1,135)	(2,700)
Balance at September 30, 1990	<u>\$141,300</u>	<u>\$75,335</u>	<u>\$28,105</u>	<u>\$244,740</u>

Bonds payable at September 30, 1990, are comprised of the following:

Revenue Bonds

1989 Series A Bonds, 1990 to 2018, interest at 6.00% to 7.10%	\$141,300,000
1989 Series B Bonds, 1990 to 2007, interest at 6.00% to 7.15%	75,335,000
Highway Revenue Bonds (Transportation Trust Fund) Series 1989, 1990 to 2004, interest at 6.75% to 7.70%	<u>28,105,000</u>
Total Bonds Payable	<u>\$244,740,000</u>

Interest on all bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. One month prior to the payment date (the valuation date), the Authority is required to determine the adequacy of the amounts deposited in the debt service reserve and, if applicable, the special reserve account, based on the fair market value of the investments recorded in the accounts. If the amounts deposited in these accounts are not in compliance with the requirements of the Indentures of Trust, earnings on the investments are to be retained in these accounts. If amounts deposited in these accounts are sufficient, earnings on investments may be transferred to the Operating Account.

Interest paid during the year ended September 30, 1990 (excluding interest received at issuance) was as follows:

Revenue Bonds Series 1989 A	\$12,010,000
Revenue Bonds Series 1989 B	5,790,000
Highway Revenue Bonds Series 1989	<u>1,837,293</u>
	<u>\$19,637,293</u>

NOTES TO FINANCIAL STATEMENTS--Continued

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

NOTE F--BONDS PAYABLE--Continued

Maturity dates and mandatory sinking fund installments, and debt service requirements for the bonds are as follows (in thousands):

<u>October 1</u>	<u>Revenue Bonds Series 1989 A</u>		<u>Revenue Bonds Series 1989 B</u>		<u>Highway Revenue Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
1991	\$ 10	\$ 10,294	\$ 2,580	\$ 5,251	\$ 1,215	\$ 2,121	\$ 21,471
1992	10	10,293	2,740	5,092	1,300	2,036	21,471
1993	10	10,293	2,910	4,921	1,390	1,943	21,467
1994	10	10,292	3,095	4,736	1,490	1,843	21,466
1995	10	10,292	3,295	4,537	1,600	1,735	21,469
1996 - 2000	50	51,448	20,140	19,036	9,990	6,682	107,346
2001 - 2005	50	51,431	28,270	10,868	11,120	2,220	103,959
2006 - 2010	29,805	49,054	12,305	1,272	---	---	92,436
2011 - 2015	61,835	32,270	---	---	---	---	94,105
2016 - 2018	49,510	7,404	---	---	---	---	56,914
	<u>\$141,300</u>	<u>\$243,071</u>	<u>\$75,335</u>	<u>\$55,713</u>	<u>\$28,105</u>	<u>\$18,580</u>	<u>\$562,104</u>

Other Maturity Information

The 1989 Series A and B Bonds and Highway Revenue Bonds maturing after the following dates are redeemable at the option of the Authority at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Maturing</u>	<u>Redemption Price</u>
October 1, 1999 through September 30, 2000	102%
October 1, 2000 through September 30, 2001	101%
October 1, 2001 through September 30, 2004	100%

NOTES TO FINANCIAL STATEMENTS--Continued

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

NOTE F--BONDS PAYABLE--Continued

Letter of Credit Agreement

In connection with the issuance of the Revenue Bonds Series 1989 A and 1989 B, the Authority obtained an irrevocable Letter of Credit in favor of the Trustee in the amount of \$229,570,709. Under the terms of the Letter of Credit, the Trustee is entitled to draw up to an amount sufficient to pay the principal of, and up to 212 days accrued interest on the outstanding bonds. The Letter of Credit is scheduled to expire on October 8, 1996, unless extended pursuant to the terms of the Letter of Credit Agreement. On each due date, beginning April 1, 1990, an annual fee will be due based on a percentage of the principal component then in effect and 212 days of interest on such principal component. The maximum letter of credit fees is 1.30%, and may be reduced in future years provided all requirements of the letter of credit agreement are met. Letter of credit fees during fiscal year 1990 amounted to \$1,706,677.

NOTE G--RESTRICTED RETAINED EARNINGS

Retained earnings of the Revenue Bonds Series 1989 A and 1989 B and the Highway Revenue Bonds (Transportation Trust Fund) are restricted until all debt service and credit bank fees requirements have been met in accordance with the Indentures of Trust. Retained earnings on the Government Construction and Revolving Loan Account and the Depository Trust Account are restricted for the purposes for which the Accounts were established.

REPORT OF INDEPENDENT AUDITORS ON OTHER FINANCIAL INFORMATION

The audited financial statements of the Authority and our report thereon are presented in the preceding section of this report. The following financial information is presented for purposes of additional analysis and is not a required part of the financial statements of the Authority. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Ernst + Young*

October 18, 1991



COMBINING BALANCE SHEET

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

SEPTEMBER 30, 1990

	Operating Account	Revenue Bonds Series 1989 A and Series 1989 B Account	Government Construction and Revolving Loan Account	Transportation Trust Fund	Depository Trust Account	Total
<b>ASSETS</b>						
Cash	\$124,451					\$ 443,832
Loans receivable		\$214,045,000	\$ 500,000	\$ 319,381		214,545,000
Interest receivable				537,278		537,278
Bond issuance costs				1,242,884		1,242,884
<b>Restricted Assets:</b>						
Cash		8,899,461				8,899,461
Investments		30,425,339				63,355,629
Interest receivable		654,004		32,930,290		654,004
<b>Assets Held in Trust:</b>						
Cash					\$ 1,526	1,526
Investments			72,006,567		100,000	100,000
Pooled investments					17,727,615	89,734,182
Interest receivable					6,345	6,345
	<u>\$124,451</u>	<u>\$254,023,804</u>	<u>\$72,506,567</u>	<u>\$35,029,833</u>	<u>\$17,835,486</u>	<u>\$379,520,141</u>
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES</b>						
Bonds payable		\$216,635,000				\$244,740,000
Accrued expenses	\$483,803			\$28,105,000		658,086
Due to VI Government				174,283		3,521,322
Payable from:						
Restricted assets		37,096,101				37,096,101
Assets held in trust	<u>483,803</u>	<u>253,731,101</u>	<u>\$66,733,722</u>	<u>31,800,605</u>	<u>\$17,409,959</u>	<u>370,159,190</u>
<b>EQUITY</b>						
Retained Earnings (Deficit)		292,703	5,772,845	1,893,618	425,527	8,384,693
Restricted	(359,352)			1,335,610		976,258
Unrestricted	<u>(359,352)</u>	<u>292,703</u>	<u>5,772,845</u>	<u>3,229,228</u>	<u>425,527</u>	<u>9,360,951</u>
	<u>\$ 124,451</u>	<u>\$254,023,804</u>	<u>\$72,506,567</u>	<u>\$35,029,833</u>	<u>\$17,835,486</u>	<u>\$379,520,141</u>

COMBINING STATEMENT OF REVENUES, EXPENSES AND RETAINED EARNINGS

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

YEAR ENDED SEPTEMBER 30, 1990

	Operating Account	Revenue Bonds Series 1989 A and Series 1989 B Account	Government Construction and Revolving Loan Account	Transportation Trust Fund	Depository Trust Account	Total
<b>REVENUES</b>						
Taxes, fees and fines						\$ 9,568,619
Interest Income:						
Loans receivable		\$16,740,864				16,740,864
Investments		3,003,047	\$5,933,070		\$443,500	11,544,757
Other	\$ 39,841					<u>39,841</u>
	39,841	<u>19,743,911</u>	<u>5,933,070</u>	<u>11,733,759</u>	<u>443,500</u>	<u>37,894,081</u>
<b>EXPENSES</b>						
Interest		16,740,864		1,837,298		18,578,162
General and administrative	407,939	1,145,881	177,993	177,707	13,340	1,922,860
Letter of credit fees		1,706,677			6,666	1,706,677
Transfers to VI Government				6,416,415		6,423,081
Amortization of bond issuance costs						<u>73,111</u>
	<u>407,939</u>	<u>19,593,422</u>	<u>177,993</u>	<u>8,504,531</u>	<u>20,006</u>	<u>28,703,891</u>
Net income (loss)	(368,098)	150,489	5,755,077	3,229,228	423,494	9,190,190
Retained earnings at beginning of year	<u>8,746</u>	<u>142,214</u>	<u>17,768</u>		<u>2,033</u>	<u>170,761</u>
<b>RETAINED EARNINGS AT END OF YEAR</b>	<u><u>\$ (359,352)</u></u>	<u><u>\$ 292,703</u></u>	<u><u>\$ 5,772,845</u></u>	<u><u>\$ 3,229,228</u></u>	<u><u>\$ 425,527</u></u>	<u><u>\$ 9,360,951</u></u>

COMBINING STATEMENT OF CASH FLOWS  
 VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY  
 YEAR ENDED SEPTEMBER 30, 1990

	Operating Account	Revenue Bonds Series 1989 A and Series 1989 B Account	Government Construction and Revolving Loan Account	Transportation Trust Fund	Depository Trust Account	Total
<b>OPERATING ACTIVITIES</b>						
Net income (loss)	\$(368,098)	\$ 150,489	\$5,755,077	\$3,229,228	\$ 423,494	\$ 9,190,190
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Amortization of bond issuance costs				73,111		73,111
Changes in operating assets and liabilities:						
Increase in interest receivable				(537,278)		(537,278)
(Increase) decrease in cash and other assets held in trust			238		(4,312)	(4,074)
Increase in accrued expenses	360,204			174,283		534,487
Increase in due to VI Government				3,521,322		3,521,322
Increase in payable from restricted assets		13,433,006				13,433,006
Distribution to Housing Construction Revolving Fund			(3,312,943)			(3,312,943)
Other increases in payable from assets held in trust			46,665		16,796,433	16,843,098
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	(7,894)	13,583,495	2,489,037	6,460,666	17,215,615	39,740,919
<b>INVESTING ACTIVITIES</b>						
Purchases of investments						
Investment maturities		(48,230,867)	(74,736,954)	(196,885,000)	(20,146,999)	(339,999,820)
Loans granted		32,057,372	72,747,917	163,954,710	2,931,384	271,691,383
Principal payments on loans		4,155,000	(500,000)			(500,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		(12,018,495)	(2,489,037)	(32,930,290)	(17,215,615)	(4,155,000)
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Net proceeds from sale of bonds				27,924,005		27,924,005
Principal payments on bonds		(1,565,000)		(1,135,000)		(2,700,000)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>		(1,565,000)		26,789,005		25,224,005
Increase (decrease) in cash	(7,894)	-0-	-0-	319,381	-0-	311,487
Cash at beginning of year	132,345	-0-	-0-		-0-	132,345
<b>CASH AT END OF YEAR</b>	<u>\$ 124,451</u>	<u>-0-</u>	<u>-0-</u>	<u>\$ 319,381</u>	<u>-0-</u>	<u>\$ 443,832</u>

