THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

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Honorable Neville James
Senate President
31st Legislature of the U.S. Virgin Islands
Capitol Building
St. Thomas, VI 00802

Dear Senate President James:

I am pleased to submit the proposed Executive Budget for Fiscal Year 2016 for the Government of the Unites States Virgin Islands ("Government"). As you are aware, when my Administration took office in January 2015, already into the second quarter, we were confronted with a budget deficit of approximately $133 million for Fiscal Year 2015 – which ultimately grew to $144 million. We were forced to implement expenditure reductions on departments and agencies, along with other measures, to put in place a plan to close the budget gap. The FY 2016 Budget, which will finance the first full fiscal year of my Administration, is structured to lay a foundation for a future in which massive annual budget deficits are not the norm.

The Fiscal Year 2016 Executive Budget submission therefore proposes a financial plan inclusive of $98 million in initiatives, including $55.5 million in debt financing and $31 million from enhanced collection of outstanding taxes through the Bureau of Internal Revenue (BIR).

Unquestionably, the Territory continues to struggle to recover from the severe economic and financial impacts of recent events – notably, the recession of 2008 and the closing of the HOVENSA oil refinery on St. Croix. However, recent data from the Bureau of Economic Research (BER) indicates slight improvement in employment, and growth in private sector activity, which is correlating to an increase in tax collections reported by the Virgin Islands Bureau of Internal Revenue through the first seven months of Fiscal Year 2015. This is encouraging; but not yet comforting. As a Government, we know that we need to work to end duplication of services while we simultaneously improve governmental operations, we need to address and build our infrastructure, and seek out private sector expansion in order to grow our economy.

The thrust of our fiscal recovery and sustainability strategy is to maximize the yield from existing revenue sources, primarily by more diligent tax collection, while we expand the tax base through economic development. In this regard, a determined effort is under way to enhance all tax collections, but especially from the gross receipts, individual and corporate income taxes and real property taxes. To the extent that we can secure greater efficiencies in these areas, it will afford us the breathing room to rebuild our economy with less fiscal pain. In 2016 we intend to undertake a critical review of the tax structure to pursue real tax reform.

We are at that time now in the economy when liquor, tobacco, lottery, gaming, visitor and online gaming activity could provide greater revenues. Careful attention will be paid to those taxes that are on the books, but which may not be yielding revenues commensurate with the cost to collect them. The Matching Fund rum cover-over reimbursement rate has to be put on a firmer footing. Within recent times the growth in that area has declined. We plan to work with the Delegate, other members in the Congress and friends of the Virgin Islands, to assist us in this issue.

Our strategic plan for developing a permanent fiscal solvency of the government hinges heavily on an economic development strategy. Thus, growing the economy will be the principal focus of my Administration. In that regard, we are and will remain open to businesses that have sound business plans and that will bring investment capital to the table. Our government can no longer underwrite private business ventures. Those businesses that benefit from the Economic Development Program will be required to make effective contributions to the economy in return for the benefit they receive from our incentive programs. Even infant industries must grow up and become contributing adults. If a business can never be weaned from tax incentive benefits in order to survive, then we must ask ourselves if they should be a part of our economy.

Another of our fiscal priorities for 2016 is to seek to explore the myriad of Federal programs and funds that are available to the Territory, but which we have traditionally not accessed or used to the best of our abilities. We must leverage federal funds to stretch our local dollars and ease the stress on the local budget. Federal funds, for the most part, are grants; we do not have to pay them back. We plan to go after those funds to enable us to build new schools, provide services assistance for the aged, and support programs for the seniors in our communities. We will also seek federal funds to increase our nutrition programs via the Department of Education and the Department of Agriculture.

Moreover, the Department of Tourism will be central in the path forward as St. Croix's tourism product is going to be a major focus area, particularly with the planned developments in Frederiksted's Paul E. Joseph Stadium, and the multi-sports complex on Mars Hill.

It is now time for us to look at our budget and management system to establish a procedure where performance based budgeting is the norm. As we move into the next budget cycle, all departments and agencies must justify their budgets. It is not a guarantee that revenues will be allocated automatically. Programs must be linked to outcomes and results, and these measures must be aligned with our goals and objectives. On our path to sustainability, fiscal discipline and economic growth will be our mantra as we move from 2016 into a brighter future.

As directed by law, we will continue to allocate funds within the sources of revenues available. This may mean that over the next year allotments may have to be reduced, given the flow of funds into the Treasury. The debt of the Government will be restructured so that payments can be less burdensome and in this same vein, structural changes to our Health Insurance program will be given high priority to contain the escalating premium costs.

The General Fund operating budget for Fiscal Year 2016 is $702.8 million, $6.7 million less than the amount submitted in the Fiscal Year 2015 Executive Budget and $41 million less than the current Fiscal Year 2015 Appropriation level of $743.8 million. It is also $10 million less than the current Fiscal Year projected allotment level of $712.8 million. Conversely, our revenue projections at $562.2 million are $68.9 million or 11% less than the current projected Fiscal Year 2015 amount of $631.1 million. This is mainly due to there being only one year of property tax bills in Fiscal Year 2016 versus two years for Fiscal Year 2015. As mentioned previously, to support the projected level of appropriations, this Fiscal Year 2016 budget includes assumptions for increased revenue initiatives in the amount of $98 million combined with some expenditure reductions government wide.

Some of the key elements in the Fiscal Year 2016 Executive Budget include:

- An aggressive effort to increase collection of taxes, especially Gross Receipts, from those who are not paying their fair share; also known as the "underground economy";

- Continued insistent collection of past-due taxes;

- Restructuring of Government's long-term bond debt;

- Establishing Departments in Fiscal Year 2016 at an appropriation level of six percent (6%) below Fiscal Year 2015;

- Institution of revenue initiatives that should generate $98 million in value to the General Fund;

- Funding of the costs related to the *(i)* monitoring of the Excessive Force Consent Decree for the Virgin Islands Police Department (VIPD), *(ii)* monitoring of the Consent Decree at the Golden Grove Correctional Institution for Bureau of Corrections (BOC), and *(iii)* the removal of the Third Party Fiduciary pursuant to the Compliance Agreement required by the United States Department of Education (USDOE), which I have mandated must end by June 2016.

- Redirecting of the amounts derived from fuel tax collections that are transferred to the Virgin Islands Water and Power Authority (WAPA) and place them back into from the Transportation Trust Fund to fix our roads;

- Moving health care cost out of the general fund into our opportunities in the expanded Medicaid Program;

- Increasing the Tourism Advertising Revolving Fund through an increase in the hotel occupancy tax rate from 10% to 12% to provide greater resources to market the Territory;

- Funding for youth programs under the Department of Sports, Parks and Recreation; and

- Provide funding for building an agricultural industry under the Department of Agriculture.

With this first budget, we have done our best to provide adequate funding to all departments and agencies, meeting our public sector responsibilities, while also bearing in mind the significant budget deficit we have been faced with.

As you consider this budget for Fiscal Year 2016, I remain committed to working with the Legislature to effect the changes necessary for the expansion of the Territory's financial stability and economic viability. Together, we can achieve more and work towards building a foundation for our future.

Cordially,

Kenneth E. Mapp
Governor