The United States Virgin Islands
OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE
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May 27, 2016

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 to you the proposed *Executive Budget for Fiscal Year 2017* for the Government of the Virgin Islands of the United States ("Government"). When my Administration took office in January 2015, we were confronted with a budget deficit of approximately $133.0 million for Fiscal Year 2015 – this amount ultimately grew to $144.0 million. We implemented expenditure reductions in departments and agencies, solved our financial impasse with Hess Oil/HOVENSA, settled long standing obligations with taxpayers, creditors, vendors and our public employees and introduced other fiscal measures to reduce this structural deficit. Given our fiscal discipline and fiscal prudence, we now can state that the FY 2017 structural budget deficit will be $110.0 million which is a reduction of $34.0 million or 24.7 percent less than 2015.

The FY 2017 Budget proposed by my Administration will be structured to lay a foundation for a future in which annual budget deficits are not the norm. Thus, shaped by our five-year economic development plan, our continued thrust will be to implement plans to reduce the anticipated 2017 deficit, with the proviso that by 2020, we should have a balanced budget where revenues are equal to expenditures.

The Fiscal Year 2017 Executive Budget submission proposes a financial plan of $1.35 billion in expenditures and debt service cost. The budget is comprised of $1.16 billion (86%+/-) of local funds, and $193.5 million or (14%+/-) of Federal Grant funding.

Many of us are aware of the effects that the global recession, the high cost of electricity in the territory, and the closure of the HOVENSA refinery had on our lives. For many years we have used the negative effects of the economic downturn as our excuse as to why our citizens' quality of life was deteriorating and why government could not do its job as well as meet its obligations. Many of our political leaders, even today, take great comfort in telling our citizens that things are bad and that it is someone else's fault so citizens just have to hold on and wait for a better day.

Well, my Administration says no more. Let's stop making excuses and let us all agree to make some tough decisions and most importantly, get to work. My Administration will lead this charge. The budget as submitted to you today is about work. It provides additional resources to our departments and agencies so our employees can better serve our community. This budget acknowledges the hard work and valued importance of the third sector of our community; our not-for-profit sector. This sector provides many important services and takes care of vital social responsibilities that are inappropriate for the private sector and most inefficient in the public sector. In the proposed FY 2017 budget, we have increased in almost every category our contributions and grants to the not-for-profit community. We have placed more emphasis and provided more support to programs and activities that support and nurture our children. We have increased support for programs and intervention services to aid families in crisis, target domestic violence and give help to those suffering with substance abuse. We are expanding our services and support for our senior citizens and expect in this budget to open more centers and provide additional services.

In this budget, we also acknowledge government's responsibility to provide services and support systems to effectively deal with our ever growing population of stray and/or abused animals.

In this message, I could spend a great deal of time detailing how many thousands of jobs we have lost; how many businesses have closed; and how many of our citizens have relocated to the mainland seeking a better life. But those days are receding.

In this message, we want to note the 590 new employees we hired in the last half of FY 2015. We want to pay attention to the 876 vacant and funded positions we are attempting to fill in our current budget and the 885 new positons now included in my FY 2017 proposal[1].

In this message, I want to reaffirm to public employees that the salary increases you are receiving are sustainable; to taxpayers that paying your income tax refunds timely is vital to our economic recovery and reduces the cost of government; and to private sector employees a re-affirmation of our enactment in the increase of the minimum wage.

In this message, I ask each Member of the Legislature to assist my Administration and the people of St. Croix grow the economy of the big island. Let us seize the opportunities before us by making critical decisions in a timely manner. Change is required in order to save what is left of St. Croix's tourism industry. The island needs a set of at least three luxury, full-service resorts that will generate synergy on the island and enough base visitation [accommodations] to support flights[2].

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[1] A combination of unfilled vacant funded positions of the FY 2016 budget and new positons proposed in the FY 2017 budget

[2] Destination Study, St. Croix, US Virgin Islands, HVS International, April 8, 2016

We are at a stage on St. Croix, when no one can miss the increased visitor traffic to the island. We are aware that hotels and condo rentals are boasting occupancy rates exceeding 75%, even with higher rental costs per stay. We are pleased that major airlines are announcing new routes and additional flights to the island. The Department of Tourism led by Commissioner Doty is capturing new and expanding air routes to the territory and to St. Croix. This upward thrust in the tourism sector is the foundation for a growth momentum in the economy.

So, here is my fourth request to the Legislature to act on my proposal to reprogram $1 million previously earmarked for the HOVENSA litigation so we can develop, identify a brand, work to finance and build a full service luxury resort on St. Croix.

I do not understand why I am having such difficulty with Senators from the District of St. Croix in moving this project forward. Building an upper upscale hotel of at least 250 rooms and the ancillary facilities will create hundreds of new jobs, drive construction activity and generate a synergy for other private sector tourism related investment on the island. The reality is, St. Croix needs the rooms.

In this message, I want to focus on our proposal to restructure our debt, to take advantage of lower interest rates, to fund new capital projects and to reduce our debt service cost by more than $50 million each year.

The restructuring of our debt can, on average, reduce our cost of funds from 5.25% to 3.98%. With this budget, I am submitting a request to fund $300 million in capital projects and investment in our infrastructure.

The capital projects will reach a broad swath of the economy. It will address a number of obligations under various consent decrees including our landfills, prisons and police department. This budget will address the cost of maintenance and restoration of a number of public schools, including the shuttered Elena Christian Jr. High, the Evelyn Williams and Joseph Gomez Elementary Schools. In addition, we have identified local land to construct the new K-8 grade school on the island of St. John. Accordingly, I am requesting $32 million to construct the new school.

Our capital budget will fund the International Multipurpose Sports Complex at UVI on St. Croix, the revitalization of the Hospital Ground Community, Lionel Roberts Stadium and Winston Raymo Recreation Center on St. Thomas. We will host a community charrette in Christiansted for improvements to the Susana Santana Ocasio Park at Altona Lagoon and Cramer's Park and we are requesting funds for the construction of the emergency operation facilities for VITEMA/911 call center at Herman Hill and the offices of the Department of Justice in Estate Orange Grove.

This cross-section of the capital expenditure budget is part of our plan to stimulate the territory's economy by improving and investing in our infrastructure. In short, we want to circulate money to create jobs and produce an improved infrastructure that will attract investments in the private sector to grow our economy. We believe this is important to add momentum to our economic recovery.

Soon we will see active construction of the new 150 room Embassy Suites hotel at Mahogany Run on St. Thomas. We have also pledged our support to working with the owners of the Sugar Bay Hotel to revitalize and re-brand this property. I depart in a few days on a trade mission to China to work with Sinopec on additional investment and expansion of the use of the Limetree Bay Facility.

Recent data from the Virgin Islands Department of Labor and by the Bureau of Economic Research (BER) indicate improvement in territorial employment and growth in the private sector. Support of this data is measured by an increase in tax collections across critical areas as reported by the Virgin Islands Bureau of Internal Revenue.

As a Government, we know that we need to work to end duplication of services, and simultaneously improve governmental operations and services. I admit that I am disappointed at the slow pace we are moving to shift many public services and administrative functions of government to the digital divide. We will do more in this area to maximize our benefits from viNGN.

The drive of our fiscal recovery and sustainability strategy is we invest in our infrastructure and grow our economy, while we pursue tax revenues owed to our government.

The Bureau of Internal Revenue has implemented a high priority initiative to increase its tax collection on delinquent accounts. The Bureau continues to hire new Revenue Agents, Revenue Officers and Tax Collectors with the expressed purpose of aggressively pursuing delinquent taxpayers. These personnel, new training of staff, and technological surveillance are expected to generate an additional $25 million in Fiscal Year 2017.

In addition, the Bureau has hired new Excise Tax Officers who are working a six-day work week to collect excise taxes on goods that arrive on weekends and have escaped excise tax payment in the past.

Collecting taxes owed and collecting taxes which are due are not the primary path to fiscal recovery; growing our economy is. This will continue to be the principal focus of my Administration.

As I said in January during my State of the Territory address; we are, and will remain open for businesses that have sound business plans and businesses which will bring investment capital to the table.

I must ask my friends at the Legislature to resist the temptation to divert funds away from the general funds to support other initiatives. When we do this, both of us must struggle to find resources to provide critical government services to the community.

We will continue to leverage the federal funds available to us and find strategic ways to stretch our local dollars thereby easing the fiscal stress on the local budget. In 2017, we will continue our aggressive campaign to acquire and spend federal funds.

I am pleased to advise the Senate that we have executed a contract with Mercer, a consulting company to complete the analysis and comparisons on the effective strategies of restoring public pension programs, which are facing financial insolvency. It is my plan to forward to the Senate this fiscal year a comprehensive strategy to restore the financial health of the Government Employees Retirement System. Again, I ask that Members of the Senate refrain from diverting funds from the General Fund to the GERS on an ad hoc basis to rescue the GERS, because this strategy will not save the system.

With this second budget, we have positioned the Territory to provide adequate funding to all departments and agencies. But, we are mindful of the significant structural and fiscal overhang in our annual operating deficits.

As you consider this budget for Fiscal Year 2017, I want you to know that I remain committed to working with the Legislature to implement vital changes to expand the economy through sound financial stability, and a sound plan for economic viability. As we move into the future, let us continue to pursue our joint desire of making our home and economy a marquee example of a cohesive approach to cooperation and development. Let us forge ahead and not stand and complain, for in forging ahead we will be able to turn obstacles into opportunities for the wonderful people of the US Virgin Islands.

Cordially,

Kenneth E. Mapp
Governor