

V.I. Government Faces \$91 Million Budget Shortfall Amid Revenue Declines

Mid-year financial review reveals significant drop in corporate income tax, prompting concerns over fiscal stability

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During the legally mandated mid-year financial review of the V.I. government on Thursday, V.I. Office of Management and Budget Director, Jenifer O’Neal, told lawmakers that a myriad of factors are responsible for the current shortfall in projected revenues for fiscal year 2024.?

Speaking to a Senate Committee on Budget, Appropriations and Finance hearing, Ms. O’Neal made known that as of April 30th, 2024, the government’s revenue collections inclusive of hotel and non-hotel taxes totaled \$537,081,652. The figure “reflects a decrease of just over 4% in comparison to revenue collections for the same period in fiscal year 2023,” the OMB director explained. Based on current trends and projections, revenue collections by the end of the fiscal

year are estimated to come in at just over \$900 million, she indicated. The total revenue figure, however, will fall short of the \$998,002,428 that has been appropriated for the general fund and the territory's tourism advertising revolving fund.

Despite forecasting an increase in all five of the major revenue categories over 2022 figures in her budget submission letter dated May 26, on Thursday Ms. O'Neal clarified to legislators that "all major revenue categories with the exception of real property tax, trade and excise and gross receipts are experiencing lower collections year-over-year than in fiscal year 2023." Corporate income tax collections have taken the biggest hit, and are down significantly by 32 percent as many corporate income taxpayers have filed for extensions. Collections, therefore, are not expected to pick up until October when filing extensions end.?

Additionally, the territory has registered a "slow-down" in construction projects that were typically a major contributor to corporate taxes. "We're in this kind of holding period at the moment before our next wave [of construction] comes in," noted Joel Lee, director of the V.I. Bureau of Internal Revenue. Conversely, property tax collections have increased by 61 percent - inclusive of penalties, fines, and sewer fees. While new hotels have increased hotel taxes, non-hotel taxes continue to register lower collection rates.

Finance officials also noted that government expenditures continue to outpace revenues. As of May 3, outflows have added up to \$794 million, with \$179 million of that amount going towards "prior year vendor payments." The balance of the expenditures thus far have covered salaries, fringe supplies, capital projects and other services. As of May 31st, the GVI carried an outstanding accounts payable balance of \$64.5 million. Of that, \$12.8 million are federal grant obligations, while there are also "\$4 million worth of invoices that were incurred in prior years but entered in this current fiscal year outstanding."

As explained by Ms. O'Neal, many of those payments were "unbudgeted and were paid from revenues collected in this current fiscal year." It's a practice that Ms. O'Neal says she continues to advocate against. "I have continuously asked this body to refrain as much as possible from making appropriations available until expended."?

However, collection shortfalls aren't the only factor contributing to the disparities in revenues versus estimates. "It is not lost on us that salaries are also higher," said Ms. O'Neal, who added that the current administration has "[moved] forward with the raises that were given in the previous administration." Union negotiations for salary increases are also continuing. Likewise, net payroll has increased from \$195 million in 2019 to \$239 million in 2024, a jump of \$44 million.

Overtime, too, is recognized as a growing expense. "We've begun discussions to address ways to curtail overtime costs, while still maintaining a high level of security and safety within the territory," reported Ms. O'Neal.?

Though the \$91 million shortfall has been described as "conservative" by the governor's financial team, Ms. O'Neal assured lawmakers that backstops are already being considered. OMB is prepared to "limit the release of some one-time allotments" and is already working with Government House to "reduce expenditures to the greatest extent possible." Ms. O'Neal hopes that new projects like the Charlotte Kimelman Cancer Institute coming online before the end of the fiscal year will reduce the shortfall.

?Senator Ray Fonseca was one of several legislators concerned by the talk of a \$91 million deficit. To quell his concerns, Ms. O'Neal explained that there are usually instances where some budgeted

allocations will not be requested by the relevant department for some reason or another - resulting in savings. With the final quarter of the fiscal year beginning on July 1st, Ms. O'Neal also explained that “we will be reviewing where we are with cash and then if we need to do some budget cuts for some departments and agencies that can actually afford that, we'll look at that as well.”?

With delinquent tax payments largely responsible for the revenue shortfall, both Senator Donna Frett Gregory and BIR director Joel Lee appealed for public compliance. “Please pay your taxes because our tax base is very small,” was the legislator's plea. “Talk to your friends. They gotta pay their fair share.” She chastised the financial team for not doing enough to encourage timely payments. “If you are in somebody's ear every month about money that they owe, they're gonna pay it.”?

For his part, Mr. Lee encouraged taxpayers to consider payment plans, explaining that “taking small bites at the apple helps bring you in compliance and it helps bring revenues into our coffers.”