The Virgin Islands Consortium

# USVI Faces Nearly $59 Million FY 2026 Deficit as Revenues Miss Forecast by $111 Million

**OMB projects the Virgin Islands will close FY 2026 nearly $59 million in the red as collections trail forecast by $111 million, with officials pointing to unpaid taxes from semi-autonomous agencies, rising costs and weak project-related revenue overall.**

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The Government of the Virgin Islands is projected to end fiscal year 2026 with an approximate $58.99 million deficit after revenue collections fell roughly $111 million below year-to-date forecasts while spending pressures continued to mount, according to financial officials who faced lawmakers Thursday over the territory's deteriorating fiscal position.

Julio Rhymer, director of the Office of Management and Budget, said actual revenue collections stood at $846.5 million, “approximately $111 million or 12 percent below the year-to-date forecast.” At the same time, expenditures paid with operations funds had reached $1.1 billion as of August 7, 2026.

While revenue collections have “remained relatively stable,” Mr. Rhymer said, “ongoing expenditure pressures, inflationary impacts, healthcare costs, personnel obligations, and operational demands have exceeded available recurring revenues.”

The revenue forecast included $116 million in Mitigation and Recovery project revenue. Addressing the performance of those projections, Mr. Rhymer said “projects have now materialized as forecast year-to-date,” adding that Individual Income Tax and Gross Receipts Tax collections have been significantly affected. He cautioned that “actual revenue for the remainder of FY 2026 may continue to materialize below forecast.”

Of the $1.1 billion in operations-funded expenditures recorded through August 7, payroll and benefits accounted for $429.2 million, tax refunds totaled $38.5 million, semi-autonomous allotments amounted to $111.6 million, and health insurance payments reached $203.8 million. Other vendor payments totaled $300.4 million.

The government also continues to carry expenses from previous fiscal years. FY 2025 invoices totaled $1.5 million as of August 7, while invoices issued during the current fiscal year amounted to $14.3 million.

The collection shortfall dominated Thursday’s meeting of the Senate Committee on Budget, Appropriations and Finance, where lawmakers questioned how the government moved from previously signaling a possible surplus to now confronting a projected deficit. Senator Angel Bolques Jr. said that during an earlier appearance, the governor’s financial team had given an “indication of a surplus.”

Financial officials repeatedly pointed to the territory’s semi-autonomous agencies as a major contributor to the collection problem. Mr. Rhymer reminded lawmakers that entities including the territory’s two hospitals and the Virgin Islands Water and Power Authority “owe the central government a significant amount of money for withholding taxes.”

He described a cycle in which the central government provides allotments to semi-autonomous agencies, which are then expected to return a portion of those funds through taxes. “If you break that cycle, then our revenues shrink, and the available funds go away,” he lamented.

Senator Hubert Frederick described the revenue shortfall as a “gaping hole” and said he assumed “it's going to get larger.”

Mr. Rhymer again turned to the financial condition of the semi-autonomous agencies. “They come here, and all they do is ask for more. They have done nothing on their end to address their issues,” he stated. He urged lawmakers to consider “legislation to hold them accountable.”

Senator Kenneth Gittens later agreed that the semi-autonomous agencies are “totally too dependent” on the central government.

Bureau of Internal Revenue Director Joel Lee said the government would have been “significantly over the top” on collections had the outstanding taxes been paid. He also questioned the tax compliance associated with capital projects being managed by some delinquent agencies.

“If we're not getting the payroll, what's going on with the gross receipts withholding that gets taken off the top?” Mr. Lee wondered.

The government’s revenue concerns extend beyond unpaid taxes from its instrumentalities. Mr. Lee said the departure of high-net-worth individuals from the territory has already hurt collections and warned Thursday that he foresees “some future departures at some point.”

He cited “power fluctuations” as one factor and said “the IRS has been cracking down on some of our beneficiaries, and they're squeezing them to a point where they may be forced to be considered U.S. residents.”

Mr. Rhymer said agencies responsible for generating government revenue, particularly those within the Office of the Lieutenant Governor, need to “beef up.” OMB has approved additional personnel funding for those agencies as part of efforts to improve collections.

OMB has also approved an increase in the Department of Licensing and Consumer Affairs budget to conduct a study of the economics of the shared accommodation economy, part of an effort to identify potential revenue “leakage.”

Lawmakers, however, signaled that more aggressive collection efforts may be necessary. Senator Kurt Vialet emphasized the need to ensure that subcontractors working on disaster recovery projects are paying their full share of Gross Receipts Taxes, while Senator Ray Fonseca said the government must become “more vigilant” with collections.

Senator Novelle Francis, chairman of the Budget Committee, suggested that the incoming administration may need to establish a collections office. He also proposed setting a “cutoff point” for the payment of prior-year expenses.

Sen. Gittens, meanwhile, said he hoped the government would stop spending “scarce recurring revenues on long-term real estate rentals and leases.”

Lawmakers were also told that strengthening collections may require a broader reassessment of the value of real property across the Virgin Islands.

Tax Assessor Ludence Romney said the work currently being performed amounts to the “minimum to be ready for the next tax roll, as opposed to capturing the true value of all the properties.” The territory’s last revaluation was completed in 2013.

“We know just by doing that quick glance at just a small data set that we know we are way off in value,” Mr. Romney said.

Although the Real Property Division has met its FY 2026 collection benchmark, Tax Collector Brent Leerdam said the government is carrying “$115 million in delinquencies.” To pursue those outstanding taxes, Mr. Leerdam recommended a “final collection activity on the regular for a couple of years.”

Despite the projected deficit and significant revenue shortfall, Mr. Rhymer told Sen. Fonseca that he remains “pretty confident” in the government’s projections.

“We just have to focus on collections and focus on revenue generation going forward.”

Those concerns are taking on added significance as senators work toward finalizing the FY 2027 budget. The proposed spending plan totals $1.64 billion, including approximately $958 million from the General Fund.

The administration’s financial team projects $428 million in Individual Income Tax collections, $72.5 million in Corporate Income Taxes, $245 million in Gross Receipts Taxes, $56.2 million in real property taxes and $43 million in excise taxes.

As lawmakers consider that spending plan, Mr. Rhymer also warned against new appropriations from the General Fund “without adequate consultation, transparency, and consideration of their long-term impact.”

He specifically criticized the Legislature’s practice of making some General Fund appropriations available until expended. Between FY 2021 and FY 2026, approximately $157.5 million in General and Special Fund appropriations were designated as available until expended, according to Mr. Rhymer. Of that amount, $21.3 million remains unexpended from the General Fund.

During questioning from Senator Milton Potter, Mr. Rhymer said “we have to be very pragmatic at this point.” He reminded lawmakers that they ultimately increased the FY 2026 budget and cautioned that “you cannot think that we could fund every single body, including not-for-profits.”

By doing so, the Legislature is “cutting into essential government services,” Mr. Rhymer said.

Senator Marvin Blyden pushed back on that argument, saying the executive and legislative branches must “agree to disagree” because not-for-profit organizations “play a major role in terms of not only the budget but in terms of output."