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Government Hiring Freeze to Remain in Place for 'Foreseeable Future', OMB Says in Bryan's 2021 Budget Proposal

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Governor Albert Bryan

The Bryan administration has gone to great pains not to layoff government employees even as the Government of the Virgin Islands continues to struggle to make a biweekly payroll of \$19 million in light of the coronavirus pandemic, which has brought the local economy to its knees. In the administration's 2021 budget, Office of Management and Budget Director, Jenifer O'Neal, said while no workforce reduction was forecast, the government would eliminate all vacancies to reflect the weakened economy.

"No vacancies have been budgeted on the General Fund, effectively maintaining the GVI's hiring freeze for the foreseeable future," reads the 2021 budget proposal which was submitted to the Legislature on Friday, according to Governor Albert Bryan.

Ms. O'Neal said the drastic reduction in revenues meant the government could not afford business-as-usual operation levels.

"With reduced revenues forecasted and major cuts necessary, we present a budget for FY 2021 that has removed all vacancies in all departments, eliminated all costs that are not mandatory, and sends a clear mandate that departments must be managed as efficiently and effectively with minimal resources as possible. We can no longer continue business "as usual"," Ms. O'Neal said. She said the budget reflects the USVI's cash shortage "and the undeniable reduction of revenues for the remainder of 2020 and projected well into fiscal year 2021."

The OMB director made mention of the disruption the pandemic has had on the tourism industry, which the USVI is heavily reliant on. "Projections would put air arrivals for the Second Quarter at approximately 186,031 persons and cruise visitors at 346,338. Due to COVID-19, we will have no cruise visitors and approximately 40% or less of projected air arrivals equating to a potential loss of approximately \$202 million in tourist expenditures in the Second Quarter of FY 2020. Based on 2019 visitation numbers, this order will eliminate approximately 150 cruise ship calls and keep more than 300,000 potential visitors from the islands," Ms. O'Neal said.

The pandemic also stands to delay the planned July opening of the oil refinery on St. Croix, Ms. O'Neal revealed. Once completed, the refinery is expected to provide what Ms. O'Neal described as a welcome source of economic diversification and refinery jobs. But it also means a ramping down of temporary jobs that has topped 3,000 individuals for preparatory oil-refining work. "The facility's reliance on demand from cruise ships may also prove a near-term vulnerability if the industry is unable to quickly rebound following the pandemic," she added.

Aside from the near-term effects of the pandemic, the USVI faces more structural issues that affect growth. "One such issue is the population decreasing each year for nearly the last decade, even before factoring in hurricanes," Ms. O'Neal said.

The FY 2021 budget proposes \$1.2 billion in expenditures, which the administration says includes \$69.1 million for debt service payments, \$291 million in non-disaster related federal funds, and \$822.2 million of local funds. From local funds, \$742.8 million is proposed for the Executive Branch departments and agencies, a decrease of \$126 million from the FY 2019 appropriation level, according to the administration. This budget also proposes \$20.7 million for the Legislative Branch and \$31.7 million for the Judicial Branch.

[\[Read: Bryan Administration's Fiscal Year 2021 Budget\]](#)

According to the administration, the FY 2021 budget assumes the following rates of change (as measured from the FY 2020 Adopted Budget) for each revenue source:

PersonalIncomeTax(PIT)—A decline of 16.2%

Forecast. Personal income tax collections will also be impacted by the COVID-19 recession over the next two years. The forecast calls for a relatively modest decline of 2% in fiscal year 2020 followed by a much more meaningful contraction of 8% in fiscal year 2021. Because final settlements due in fiscal year 2020 are based upon taxable income for calendar year 2019, collections for the current fiscal year will be less impacted by COVID-19. In fact, the only

impacts to PIT collections in fiscal 2020 will come via lower withholding as layoffs and furloughs go into effect across the islands. Those job losses will be felt much more severely in fiscal year 2021, when final payments on income earned in calendar 2020 become due.

These are significant declines from which the USVI will not fully recover until at least fiscal 2023. This is due to the USVI's heavy reliance on tourism and visitor spending, which will result in GRT collections seeing larger COVID-19-related declines. Beyond 2022, growth in PIT does pick up significantly in line with healthier job growth and a return to normalcy in the number of visitors to the territory.

Corporate Income Tax—A decline of 18.7%

Forecast. Corporate income tax collections follow a similar overall pattern to GRT collections in that they are closely tied to the timing and overall level of USVI economic activity. The forecast calls for double-digit declines in CIT collections in the current fiscal year, followed by significant but slightly more modest declines in fiscal year 2021. This is connected to the rather immediate drop-off in economic activity resulting from the COVID-19 shutdowns as well as the structure of U.S. corporate income taxes. CIT collections are not

forecasted to regain pre-COVID peak levels until at least fiscal year 2023 despite a relatively quick rebound as tourism resumes and federal assistance money continues flowing into the territory.

Real Property Tax—A decline of 30.3%

Forecast. Property tax collections are one of the few pieces of the overall revenue forecast that see little impact from COVID-19. This owes in large part to the stability of property tax collections as a revenue category, and the lagged relationship between market valuation and assessed valuation.

Collections in fiscal year 2020 increase sharply owing to much of the rebuilding that has taken place since Hurricanes Maria and Irma in 2017. Collections then decline slightly before stabilizing through the end of the 5-year forecast period. By the end of fiscal year 2025, collections remain relatively unchanged compared with the levels seen this fiscal year.

Gross Receipts Tax (GRT) – A decline of 28.8%

Forecast. The outlook for gross receipts tax collections is grim over the very near term as the impacts of COVID-19 dramatically curtail overall economic activity in the USVI. Travel restrictions and a decline in tourism will weigh particularly heavy on GRT collections as fewer visitors spend money in the territory. Collections are projected to decline by about 12% in both fiscal years 2020 and 2021. This represents a larger overall decline than was seen during and after the Great Recession more than a decade ago.

Beyond fiscal year 2021, the pace of economic and collections growth is projected to pick up considerably as tourism normalizes and the impact of federal aid boosts investment spending. However, it is important to view this growth in context. Given that this strong growth comes on the back of such record declines, overall GRT collections end fiscal year 2025 only slightly higher than they were in fiscal year 2019.

Licenses, Fee, Permits—An increase of 3.72%

Forecast. In FY2021 Licenses and Fees & Permits were projected at FY2019 levels. This projection is informed by the understanding that a significant amount of recovery projects are still in design or going through the bidding phase, and the Office of Disaster Recovery (ODR) is projecting to expend \$787.0 million in FY2021, in addition to collections for licenses, permits and fees for private projects. Although COVID-19 disrupted all revenues streams, to include licenses, fee and permits (i.e. Night Clubs and Tavern keeper A), construction activities in the territory are expected to increase.

Cost Drivers

For FY 2021, the cost of ensuring continued government operations is expected to be \$1.22 Billion or 13.2% less than FY2020's \$1.41 Billion. The economic disruption caused by COVID-19 has forced Departments and Agencies to implement and use increased technology as well as find ways to reduce Personnel Costs by eliminating vacancies and better managing overtime.

Budget Highlights

Within fiscal year 2021, even in light of significantly reduced revenue projections, highlights of the budget include the following:

1. \$5 Million contribution to the budget Stabilization Fund
2. \$1.5 Million in scholarships to local students pursuing secondary education
3. \$5 Million set aside for the filling of critical vacancies
4. \$2 Million in wage adjustments to address outstanding collective bargaining agreements
5. \$1.475 Million in General Fund Capital Projects for the Department of Education
6. \$7.2 Million in funding for Mental Health Services in the Department of Health for individuals with mental illness and those who are in, or at risk of entering, the justice system
7. \$1.4 Million for VIPD for consent decree monitoring, use of force analysis, and other related expenses
8. \$180,000 for Grove Place Weed & Seed Program (STX) and Bovoni Weed and Seed Program (STT) aimed at reduced gang activity in targeted communities
9. \$42.7 Million in Garvee Bonds projects for the following highways: Mahogany Road, Hams Bluff Road, Melvin Evans Highway, and Veterans Drive
10. \$400,000 to provide relief for veterans for medical expenses and death benefits payments
11. \$270 million in federal funds to battle the COVID-19 Pandemic to be expended by the end of the first quarter
12. No vacancies have been budgeted on the General Fund, effectively maintaining the GVI's hiring freeze for the foreseeable future
13. Travel and Training have been reduced by an average of 50 percent

14. All personnel have been transferred from the Indirect Cost Fund and placed on the General Fund, with other operating expenses now being funded on the Indirect Cost Fund for relevant departments

15. Reductions to departments and agencies averages 14 percent when compared to FY 2020 appropriation levels

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