

The Virgin Islands Consortium

Millin Young Calls Mapp's Budget Proposal 'Pie In The Sky,' 'Woefully Out Of Balance'

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ST. THOMAS -- Governor Kenneth Mapp is already getting push back from Democratic leaders in the 31st Legislature, with Senate Vice President Janette Millin Young, above, characterizing the governor's recent budget submission as an "overly optimistic collection of wishful spending, long on expenditures and significantly short on anticipated revenues."

On May 27, Mr. Mapp [submitted to the Legislature](#) his fiscal year 2017 budget of \$1.3 billion. On Monday, the Legislature's Finance Committee [heard the governor's financial team](#) defending its numbers.

"I'm prepared to discuss how we can responsibly cut this pie in the sky budget given that it is woefully out of balance by \$110 million in direct contradiction of the mandates of the Revised Organic Act of 1954. And, since the executive branch has abdicated its responsibility to submit a balanced spending plan, it is left to the Legislature to do so," Mrs. Millin Young said.

She added: "While the administration is taking credit for a nearly 25 percent reduction in the structural projected budget deficit to the tune of \$120 million, there still remains a substantial difference between anticipated revenue collections and proposed spending requirements."

The administration's fiscal year 2017 budget proposes hiring an additional 800 plus new employees, giving and sustaining salary increases, and opening additional community-based centers while making additional, significant, spending commitments. Mrs. Millin Young, however, says the proposal takes into consideration the administration's projections in lieu of solid numbers to determine a clear path forward.

"This is an unworkable approach to developing proper public policy and a clear recipe for financial insolvency. A budget contains plans with numbers on paper," she said. "What really counts is cash in the bank, and given the executive branch's own projections, they are publicly admitting that they lack the funds to accomplish what they propose to do."

"The administration's testifiers could provide no areas where substantial increase revenue collections were anticipated to justify the Legislature passing this proposed budget. In some collection categories, revenues have declined during this fiscal year over last year. Leadership requires responsibility and I, for one, will not do the irresponsible thing and participating in approving a budget that is clearly unbalanced, therefore giving false hopes to Virgin Islanders," Mrs. Millin Young concluded.

Of the \$777 million (excluding debt service and federal funding) of general fund monies from the Mapp administration's \$1.3 billion budget discussed at a budget overview hearing, 59 percent has been allocated to salaries and benefits. There is little money in the budget for capital projects, which Mr. Mapp has staked his governorship on.

So in order to get those projects off the ground, the administration says there's \$147 million in existing bond monies available for capital projects that's not tied to the 2017 budget, and the administration is getting ready to introduce legislation to borrow \$200 million more; bringing the total in capital project funding to \$347 million — all through bonds.

The keyword here is "bond", or in layman's terms, loans backed by the government's rum revenue and other avenues like real estate. According to Office of Management and Budget Director Nellon Bowry, the government's legal borrowing capacity is one-tenth of the assessed value of taxable property in the territory. This excludes government-owned property (Mr. Bowry said liens can't be placed on government property so they can't be used to back bonds), as well as nonprofits and federal property.

One-tenth of assessed property in the territory currently equates to \$1.3 billion, according to Mr. Bowry. The government currently has \$844.9 million in outstanding general fund debt (including debt service and other expenditures) — a mere \$445.1 million way from

the government's legal borrowing limit — which Mr. Bowry estimates \$734 million is accounted for through taxes, a mixture of which includes aggressive tax collection, growth in certain industries, expiring E.D.C. benefits, among other avenues. This leaves the government with a 2017 deficit of \$110 million, \$55 million to be covered with current working capital and another \$55 million through budgetary savings and debt restructuring, said Mr. Bowry.

Mr. Bowry was pressed throughout Monday's hearing on the territory's debt. And he was questioned by Senator Almando Liburd on a recent [Bloomberg article](#) that says the territory is in more debt than Puerto Rico per capita, with \$23,000 of obligations per person, more than Puerto Rico's \$20,000. The territory's debt, Bloomberg says, amounted to \$2.4 billion across all issuers — a sliver of P.R.'s \$72 billion debt load. But it's the territory's population and load of debt — 102,000 residents with \$2.4 billion debt, compared to Puerto Rico's 3.6 million population and \$72 debt — that's causing observers to draw comparison.

"It's the same template: Over a period of years, you keep issuing debt to cover your operating deficits, your economy isn't growing, your population isn't growing, but your liabilities keep growing," said David Ashley to Bloomberg, an associate portfolio manager at Thornburg Investment Management, which holds \$11.5 billion in municipal bonds. "Just by virtue of math, your per-capita debt just continues to rise, probably to an unsustainable level at a certain point."

But Mr. Bowry said the territory's situation was different from that of Puerto Rico — echoing the sentiments of Mr. Mapp and Delegate to Congress Stacey Plaskett — because most of the debt is not tied to general obligation bonds, and instead to [rum revenues](#) and real estate — [RAN notes](#).

Mr. Bowry used the Virgin Islands Water and Power Authority as an example to highlight the difference between the territory and Puerto Rico's debt structure: He said W.A.P.A.'s debt is tied to W.A.P.A., while Puerto Rico's utility debt is tied to general fund revenue.

W.A.P.A., however, is owned by the government; and if the semiautonomous entity were to face collapse — [its bonds were declared junk last week](#) — that debt load would fall on the government.

Mr. Bowry said the territory's debt has been a problem for years. "I've been saying for a year now that we have a structural deficit of more than \$100 million." He said only two areas are sustaining the territory: tourism and government spending. And he said the government needed to find new ways to expand growth in the private sector to replace lost industries such as manufacturing.

Also discussed at the hearing was the G.E.R.S. unfunded liability of over \$3 billion. Mr. Bowry said the administration would introduce a "comprehensive plan" to save the pension system, which is currently under study. The plan, Mr. Bowry said, "will require a comprehensive approach to fund the liability," and [not the piecemeal approach](#) that has been employed thus far.

Another problem area highlighted was funding for the hospitals. Mr. Bowry revealed that \$138.4 million have been allocated for the medical facilities in the 2017 budget, but

he was not able to give a breakdown on the amount each facility would receive.

Bureau of Internal Revenue Director Marvin Pickering said B.I.R. had made progress in collecting tax monies, but added that while the bureau added 11 new employees as part of its 2016 budget appropriation, it needed about 30 more employees to operate at optimum standards — a request that will be reflected in B.I.R.'s 2017 budget and discussed in detail at an upcoming hearing.

Senator Nereida Rivera-O'Reilly chided B.I.R., however, citing an audit that had revealed multiple failures at the bureau, which she said hampered collections.

The \$844 million include \$715.5 million for executive departments and agencies, \$60.9 million for the 31st Legislature and the Judiciary, and \$68.8 million for long-term (gross receipt tax bonds) debt service.

The government department with the greatest allocation of funds is the Department of Education, with a budget of \$167.1 million, up from last year's \$154.5 million.

See Mr. Bowry's testimony [here](#).