

The Virgin Islands Consortium

Mapp Administration's 2018 Budget: Cut Expenses, Strengthen Tax Collection

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ST. THOMAS -- At the end of his testimony on Wednesday during the 2018 budget overview hearing, Office of Management and Budget Director Nellon Bowry, who was the lead testifier at the hearing, closed by stating, "I believe the FY 2018 budget will determine whether history records the loss of market access as a blessing in disguise or not."

A blessing, Mr. Nellon appeared to argue in his lengthy testimony, because the loss of access to the bond market is forcing the government to tighten its belt, cut waste and get its house in order. But it may be a curse if the government fails to demonstrate the diligence needed from lawmakers and the Mapp administration in making the difficult

choices to achieve fiscal balance.

Two of the most abundant themes throughout the testimony that the administration sees as critical to the success of the plan, are spending cuts and the aggressive collection of taxes owed to the government. Coupled with the Department of Justice and Bureau of Internal Revenue's [joint efforts](#) to collect, overtime, roughly \$400 million that is owed to the government, of which the administration is conservatively projecting over \$15 million for fiscal year 2018, and a more diligent processing of the current tax base, the administration expects to collection additional tax revenues of \$37.7 million.

But collecting owed taxes and better processing of the current base are not enough to satisfy the hole left by the government's inability to access the bond market for what had become an annual borrowing of over \$100 million (this year's structural deficit is approximately \$100 million, according to Mr. Bowry). To that end, the administration revisited the burden of health insurance for current government employees as well as retirees. The system now in place sees the G.V.I. paying 65 percent of healthcare cost for employees, while employees pay 35 percent of the cost. The administration has proposed a 60/40 split for current employees and a 50/50 split for retirees below the age of 65. At a press conference held on Monday, Mr. Mapp said if the changes were to be implemented, the government would save \$20 million annually on the 50/50 split alone, some of which he said would go to GERS.

Senators were concerned about that portion of budget, with Finance Committee chairman, Kurt Vialet, wondering aloud whether retirees would survive the reduction. However, for retirees over the age of 65, 100 percent of cost is covered, as they become eligible for medicare.

Yet, even as the administration has been relentless in searching for areas to cut spending, it reserved hiring for a few departments, the most apparent being the ares of law enforcement, health, and human services. "Forty new/vacant police officer positions for the Virgin Islands Police Department for a new cadet class; 41 new/vacant positions to the Bureau of Corrections to meet the consent decree mandate; 19 new/vacant positions to the Department of Health and 45 new/vacant positions to the Department of Human Services. Some of this cost will be offset by substantive reduction in overtime, particularly by VIPD," Mr. Bowry said.

The \$833.9 million 2018 budget cuts executive branch spending by \$67.7 million (to include government department and agencies) or 9.3 percent from fiscal 2017 appropriations, and proposes a combined \$4.4 million or a 7.2 percent reduction in cuts for the Legislative and Judicial branches.

The government is running on an extremely tight budget, with liquidity on a monthly basis set to approach "an undesirable average of \$9 million" through the month of July. That's \$23 million lower than what the administration anticipated, and is a result of the government's inability to access the bond market for working capital, as well as "slippage of approximately \$30 million in actual revenues and other inflows received versus budgeted projections," according to Mr. Bowry.

The economic climate would be less severe if the economy -- which the administration says is rebounding -- was doing so with acceleration. After declining in previous years,

the territory's gross domestic product grew by 0.2 percent in 2015, not merely enough to affect tax collection levels or consumer spending in any meaningful way.

Mr. Bowry also noted that the labor market has seen some improvements this year. "For the eight months of the FY 2017, the number of non-agriculture jobs was 38,352 compared to 37,666 jobs reported during the same period in FY 2016. During the same period, the unemployment rate was lowered slightly to 10.7%, from 11.3% in 2016. The rate for St. Croix remained at the same level as a year earlier, posting 11.2% in FY 2017, compared to 11.3% in 2016. The rate for St. Thomas and St. John declined to 10.3% from 11.3% in FY 2016," Mr. Bowry said. He also cited the Bureau of Economic Research, stating that the average salary in the USVI grew by 4.1 percent from 2015 to 2016, climbing to \$39,802 from \$38,252 in 2015. Private sector annual salary wage increased by 1 percent in 2016 to \$34,443, while the public sector average annual salary rose by 2.1% from \$52,572 to \$53,660 in 2016.

But the average salaries, in more ways than one, do not reflect the reality of many Virgin Islanders, especially government employees, whose checks see heavy reductions from multiple sources, the most aggressive coming from G.E.R.S. at 10 percent. And with the proposed change in the share of healthcare costs, deductions stand to rise.

The cost-cutting, aggressive tax collection and finding ways to grow the economy must be sustained for years, according to the administration. For this year, at least, it pointed to the creation of jobs through a number of construction projects that are already ongoing or will soon begin.

But the problems that could find the territory in an even worse position than it currently is persists, with the Mapp administration listing a number of areas that are cause for concern, which were raised by the ratings firms.

- The long history of the annual general fund deficit persists. Over the last five audited fiscal years (FY2012 – FY2016), the general fund revenue deficiency totaled \$771 million; an annual average deficiency of \$154 million. These have been made up by \$466 million transfers from other funds and by debt financing.
- Over the same 5-year period, long-term debt increased by 1.4% from \$2.06 billion to \$2.12 billion or 56% (nominal) GDP.
- The 2015 report on the GERS estimates the unfunded pension liability of \$4.07 billion, up 32% from 2014. This means that this liability is now bigger than the territory's GDP.
- The economy, contracted by 27% from \$4.24 billion in 2010 to \$3.09 billion, (real GDP), is limited by its reliance on tourism and rum production and weakened by the 2008 recession.

During his press conference on Monday, the governor said he was ready to lead the territory out these difficult financial times, but the approach must be a collective one.

"I leave this message with the community: let us find the collective good of the territory and work our way to fiscal balance, because it benefits all of the Virgin Islands," he said.