

The Virgin Islands Consortium

Even After Accepting Federal Loan, VI Government's 2018 Budget Shortfall Tops \$280 Million, Threatening Essential Gov't Services

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ST. THOMAS -- When lawmakers passed a [sin tax measure](#) which was subsequently signed into law by Governor Kenneth Mapp earlier this year, the action was one of a number of moves that government officials had taken to offset a structural budget deficit of over \$100 million. The bond market had already refused to lend money to the USVI, and lawmakers along with the governor were to find ways to increase revenues to help satisfy the structural deficit, while employing austerity measures.

On the austerity front, the government curtailed most overtime work; travel expenditures for government employees had been reduced as well. "This is imperative as we try to close the gap and do it in a manner that's least painful," Mr. Mapp [said in February](#), when he considered shutting down the government for one day every two weeks as the territory's financial woes were thrust into a downward spiral following the refusal of the bond market to lend money to the USVI.

The administration was in the midst of seeking financial support from the same bond market that had refused it months earlier, when Hurricanes Irma and Maria changed the trajectory of the territory in a number of ways, bringing whatever tax revenue the government was receiving to a near halt, while depressing an already anemic economy, and whiplashing the USVI's most important industry: tourism.

On Tuesday, the Mapp administration's financial team, led by Office of Management and Budget Director, Nellon Bowry, told the Senate Committee on Finance during a hearing that the territory's 2018 budget shortfall was \$423.6 million, which was increased to \$453 million because of increased spending of \$29.4 million. The total sum was partially offset by the community disaster loan that the territory accepted -- [albeit with a dangerous caveat](#) -- from the federal government, which Mr. Bowry said will be \$250 million, bringing the territory's 2018 budget deficit to \$203 million.

The community disaster loan, referred to as CDL, totals \$500 million over the course of three fiscal years. Mr. Mapp has said on multiple occasions -- and the agreement passed by lawmakers on Friday confirms it -- that the first drawdown will be \$300 million.

The 2018 budget deficit places the territory in a much more precarious position than it was during 2017 budget deliberations. And with the government essentially ruining any credit viability with bondholders following the passage of the CDL, which included a stipulation that the federal government receives payment priority from the Matching Fund Revenue bonds over the government's current bondholders, the government is now left without funds or private partners to meet services crucial to any functioning government.

"For some further perspective, consider that the fiscal year 2018 baseline budget is already \$81.1 million less than the fiscal year 2017 roll over appropriations. Therefore, in order to re-balance, the fiscal year 2018 general fund expenditure budget will have to be set at \$284.1 million, or 36 percent below fiscal year 2017 appropriation level. Appropriation reductions of this magnitude clearly imply substantial reduction in the level of government services," Mr. Bowry said.

In essence, Mr. Bowry told lawmakers that the 2017 budget already had a shortfall of \$81 million, even with all the government's attempts to close the \$100 million structural deficit gap with sin taxes, aggressive tax collection, and other austerity measures. The \$81.1 million must be added to the 2018 shortfall of \$203 million, bringing the total to \$284.1 million.

A major question remains: how will the government close the gap? With its credit rating below junk status and its [covenant with current bondholders](#) broken after the passage of the community disaster loan, the other options are not comforting: cut essential services, forgo on paying tax refunds while levying even more taxes on the territory's residents.

Senator Kurt Vialet, chairman of the Committee on Finance, called a recess and emerged out of it stating that more information was needed for the committee to better assess the government's finances. Mr. Vialet said the information provided was based on an earlier assessment of the damage wrought by Irma and Maria. "For the Legislature to move forward with the fiscal year 2018 budget, we want to make sure that all numbers are accurate. We need updated information so that the Government of Virgin Islands will be able to meet their financial obligations," he said.

Senators present at the hearing included Nereida Rivera-O'Reilly, Dwayne DeGraff, Novelle Francis, Brian Smith, Janelle Sarauw, Sammuell Sanes, Marvin Blyden, Jean Forde and Mr. Vialet (they are all pictured above). Sen. Neville James was absent.

Update: Dec. 13, 2017

A previous version of this story, because of a text error, omitted Senator Dwayne DeGraff as one of the Finance Committee members present at the hearing. We've updated to story to reflect Mr. DeGraff's presence.