

The Virgin Islands Consortium

Citing Difficulty In Projecting Collections, Legislature Leaves 2018 Budget At 2017 Level

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Ernice Gilbert **February 21, 2018**



The 32nd Legislature has decided to allow the 2018 budget to simply rollover using 2017 budget appropriations, citing difficulty in accurately predicting collections following Hurricanes Irma and Maria, "fluctuations in revenue streams affected by unemployment, mass exodus of residents, reduction in hotel rooms and the influx of significant federal spending within the territory," according to a statement issued by Senator Kurt Vialet, chairman of the Committee on Finance.

"At this stage, it is more practical for the territory to formally adopt and continue operating on the fiscal year 2017 budget for the remainder of fiscal year 2018," Mr. Vialet said. "This approach will allow us to continue monitoring revenues while focusing our attention

on mandates as spelled out in the "Bipartisan Budget Act of 2018" and preparing for the fiscal year 2019 budget cycle which is feverishly upon us."

Mr. Violet said the decision was made in consultation with Mapp administration officials from the Office of Management and Budget, Dept. of Finance, and the Bureau of Internal Revenue, along with the Senate's Post Auditor's Office.

The 2017 budget, which was approved in September 2016, came with a \$110 million structural deficit that the Mapp administration attempted to satisfy by going to the bond market. But after being rejected in January 2017 -- and with the continued deterioration of the territory's bonds -- the government moved to [levy new taxes while exercising some belt tightening](#) on spending, in an effort to bridge the gap. During that time, the government would reveal how many days of cash on hand it had remaining, which underscored the difficult financial position it was in. (The structural deficit in the 2016 budget was satisfied with a portion of [the \\$220 million windfall](#) the V.I. government received from the sale of the former HOVENSA oil refinery to ArcLight Partners, LLC.)

Limping along in 2017, there appeared to be no relief in sight for a government that continued to struggle to make ends meet. Then, with little warning came Hurricanes Irma and Maria, which disarrayed government operations and placed the local government in an even worse position, reversing any gains made before the storms struck. That reality was highlighted by Mr. Violet in his statement, when he noted mass exodus of residents, unemployment and other factors as reasons for the rollover budget.

Yet even as the Senate and the Mapp administration have agreed to rollover the 2017 budget to 2018, a myriad financial headaches still linger.

In December, the Mapp administration's financial team, which was led by then-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. Mr. Bowry said the total sum was partially offset by the community disaster loan (CDL) that the territory accepted from the federal government, which he said at the time would be \$250 million, bringing the territory's 2018 budget deficit to \$203 million.

But the Mapp administration has since revealed that out of the \$250 million in CDL, it has only qualified for \$85 million, with the U.S. Treasury [denying a second drawdown in December](#). Subtracting \$85 million from the \$423.6 million, leaves a 2018 budget deficit of \$338.6 million.

"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," Mr. Bowry said in December. Back then, he was projecting that amount based on a belief that the local government would secure the \$250 million in CDL funds. A recalculation based on the government's ability to secure only \$85 million, resets the shortfall projection to the \$338.6 million.

In a positive sign, however, B.I.R. collections between October 2017 and January 2018 -- roughly \$187 million, [according to data found on B.I.R.'s website](#) -- was almost identical with the same period last year (October 2016 to January 2017), when B.I.R.'s collections during that time was \$190 million. The near match in collections, even after the territory was struck by two Category 5 hurricanes in September, is partly a result of increased labor in the territory mainly in the construction industry. Governor Mapp said in October [while announcing](#) the VI Hurricane and Resiliency Advisory Group, that construction would be the territory's main economic driver for the next three years.

If the collections keep up, though the territory will still be facing deficits, the dire situation it confronted following the storms will have improved. And the signs point to sustained collections for at least the remainder of 2018 with the announcement of some \$766 million of federal funds for a program dubbed [the Emergency Repairs VI Project](#), which the governor has projected will provide 10,000 jobs -- 2,500 to 3,000 of which will be supplied by the local workforce.