

The Virgin Islands Consortium

Op-Ed | At Least Puerto Rico Has A Plan, Why Not Us?

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A recent conversation on our coming 2018 election raised the question of whether the candidates (incumbents and challengers) truly understand the breadth of the problem facing the Virgin Islands and are thinking beyond winning to the issues of governance.

Tangentially related, a recent published critique of Puerto Rico's new fiscal plan of recovery, conflated my thoughts on these two subjects.

Puerto Rico's plan is recognizably short on realistic assumptions as well as metrics for tracking progress. Its assumptions overlook relevant global experiences that suggest a much longer recovery period from a natural disaster of the magnitude of hurricane Maria.

Five months after Irma and Maria, however, we in the Virgin Islands have no formal plan, aggressive or otherwise, for extricating ourselves from the impact of Irma and Maria. Neither the governor, legislators, political groups nor candidates have systematically set forth how we will address the challenges ahead.

This absence of leadership should concern us all.

Puerto Rico's and the Virgin Islands' challenges are not dissimilar. Opinions to the contrary notwithstanding, the challenges of both communities, which endanger their economic and fiscal future, are scarily similar. Because of the size of the Commonwealth and the number of persons impacted the national media focuses on Puerto Rico and gives passing attention to the Virgin Islands.

Consider the following similarities of the two territories.

Both have relied on one primary economic engine to drive growth: manufacturing in Puerto Rico and tourism in the Virgin Islands.

Puerto Rico's manufacturing sector represented 38% of the Commonwealth's GDP and 99% of its exports in the 1990s, the last decade of positive economic growth.

In 1990, Virgin Island tourism represented 23.5% of Caribbean international tourism arrivals. By 2016 that percentage had dropped to 10%. Almost 70% of our tourism is cruise industry related. And, our economy is heavily dependent on Tourist related spending. In 2015 the relationship of that spending to Gross Territorial Product was 35%

Regional and global competition, loss of federal tax preferences, changed business models and limited foreign and domestic investment have neutered the ability of manufacturing and tourism to generate the economic lift needed to halt Puerto Rico's downward spiral and the decline of the Virgin Islands economy post the Great Recession.

Increases in the cost of living combined with the loss of productive employment opportunities are contracting the workforce in both territories. And, that population is rapidly aging.

Pre Maria, Puerto Rico's population was shrinking by 1% annually. Virgin Islands population declined 4% in the years between 2000 and 2015 and has undoubtedly decreased further post Irma and Maria. The percentage of Puerto Ricans 60 years and older is 23% and in the Virgin Islands 31% of the population is above 55 years of age. Unemployment in Puerto Rico was 11.8% in 2016, twice the rate on the US mainland. In the Virgin Islands the comparable number was 10% pre hurricanes.

Both territories have a high poverty rate relative to the 50 states and are significantly dependent on federal transfer payments. Forty six percent of Puerto Ricans live below the federal poverty line, as do 58% of children. In the Virgin Islands, 22% of our population lives below the poverty line and 35% of our children do as well.

A large percent of both communities, therefore, qualify for health insurance coverage at the local government's expense. However, both territories receive less in per capita Medicaid payments than do the US states and neither territory can participate on the insurance exchanges of the Affordable Care Act because of ineligibility for subsidies.

Puerto Rico has incurred substantial debt to maintain public services and living standards. The Virgin Islands has done similarly.

Puerto Rico's outstanding bonds for governmental activities approximate \$40 billion, not including the debt of other governmental entities. On a population of 3,400,000, this equates to \$11,765 per person. The comparable numbers for the Virgin Islands Government is \$2.0 billion in 2016. Using a population of 104,000 the per capita bonded debt burden is \$19,231.

In 2016, the Puerto Rico Government Employees Retirement System exhausted its assets. Some 97,000 retirees look to it for retirement benefits. The Virgin Islands Government Employee Retirement System has roughly \$0.25 for every \$1.00 of actuarial valued liabilities. Its actuaries project GERS will be insolvent in 2023. Some 8520 retirees depend on pension benefits from this system to meet living expenses.

Puerto Rico projects an average \$5.6 billion operating deficit each year for the next five years. On an estimated 3.4 million population, this represents a per capita annual deficit of \$1,647. In December 2017, the Virgin Island's Budget Office stated that the 2017 budget had a shortfall of \$81 million, equating to \$779 dollars per person; post hurricanes, that estimate was \$534 million, or \$5,135 per person.

Federal disaster assistance funding is now available to both territories but in the form of more loans, further exacerbating the debt burden to all Virgin Islanders.

Both Puerto Rico and the Virgin Islands rely on a fuel oil based electrical grid which burdens businesses and residences with high-energy costs including a significant surcharge to meet legacy debt. New spending is needed to diversify that grid and harden the distribution system; existing customers must pay that cost.

And, finally, today both government administrations seemingly share the same unrealistic expectation that federal disaster spending will significantly contribute towards eliminating the structural issues that plague economic growth and sound government financial operations.

This is wishful thinking. There will be some infrastructure and health expense related benefits from federal intervention. However, there is little that federal disaster assistance will do to change the critical factors of shrinking and aging population, household poverty, stagnant to declining economic growth, and lack of industry competitive positioning. Neither will that assistance address further financial losses from the recently enacted 2017 tax reform measures and the Federal government's insistence that hurricane relief be repaid.

Those offering themselves as community leaders in November must be required to exhibit an understanding of these issues and the implication for those of us who are residents and discuss their plans for addressing these challenges. Preferably, we should see their proposals in writing and be given the opportunity to study these plans. If we lack the willingness to demand this, then we truly deserve what we get.

We will not all agree on every vision that is presented. Those presented, however, should be consistent with the facts, as we know them to be, not as we wish them to be.

This Op-Ed was submitted on Tuesday by: Justin Moorhead Managing Director, Virgin Islands Capital Resources, Inc.

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