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Opinion | To the 35th Legislature: Beware the Wolf at the Door

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Fast backward six years or so, to the months just before the September 2017 Hurricanes. At the time, the Government of the Virgin Islands (GVI) was making plans to furlough employees. Having failed, for the first time, in an attempt to borrow operating cash – aka working capital -- it was scrambling to make bi-weekly payroll, while millions in unpaid bills and obligations were piling up. Operating at times with only two days available cash, the GVI was literally running on empty. The proverbial wolf was at the door.

We should have seen it coming. For decades, audited financial statements had been documenting consecutive annual operating deficits -- totaling billions of dollars. Whenever expenditures exceed revenues and other fiscal resources, the difference is debt. So, those deficits created increasing debt that inevitably became unsustainable. The failure of the January 2017 bond issuance signaled that the GVI had maxed out its debt capacity; confirmed by steep downgrade of its credit rating – to the bottom of the rating scale.

Six years later, there is compelling evidence that the wolf still lurks close by. Audited financial statements through FY 2019 – the latest available -- and other financial information, up to and including FY 2023 budget, show that the imbalance in the General Fund persists. In October 2021, Moody's reconfirmed the GVI's abysmal credit rating (Caa3); citing strained government finances, financial reporting challenges, and substantial liquidity strain --among others. Ominously, the GVI recently admitted to being cash strapped -- with only four to five days of cash on hand.

But the abundance of FEMA, COVID and ARPA dollars made available to the Territory since 2017, is concealing these serious structural weaknesses in the Government's fiscal condition and outlook. Mesmerized by over $10 billion in Federal funding – more than two years Virgin Islands GDP – the GVI is letting slip a fortuitous opportunity to put its fiscal house in order. That would be a big mistake.

Because the Virgin Islands imports almost everything, including workers, much of the fiscal benefit from this extraordinary amount of Federal funding will leak out to other economies. Sooner than later, the respite that all this money provides will dissipate, exposing the underlying frailty of the GVI's fiscal condition. That is why the GVI should make haste, while the largesse Beware the Wolf at the Door lasts, to initiate a fiscal rehabilitation plan, with the goal of achieving primary government solvency, before the end of this decade; validated by restoration of investment grade credit rating and financial market access.

The foundation for the plan must be a sustainably balanced General Fund budget, measured and monitored by a robust financial accounting system. A Budget Policy Reform Act (BPRA), which should be enacted in time for the FY2024 budget cycle, would provide a policy framework to guide the budgeting process, and establish minimum budgeting standards – a budget building code – to ensure structural integrity. It should establish the goal of sustainable budgetary solvency; meaning that revenues and other fiscal resources that are reasonably expected to be available over the budget period, are enough to cover expenditures, and not incur a deficit.

It should establish, at minimum, the following budgeting standards: annual budget appropriations should be the first year of a rolling five-year budget planning period; it should comprise objective and credible estimates of revenues, resources and expenditures, based on generally accepted forecasting methodology and governmental accounting standards; it should include a budget stabilization (rainy day) fund; and it should provide for semi-annual review and reset.

Effective fiscal management requires timely feedback of reliable financial information – to measure progress and to stay on course. The GVI's financial reporting has been charitably characterized as "challenged" by one rating agency. As the 34th Legislature grappled with the $1.4 billion FY 2023 Budget, the most recent audited financial data available for guidance, were for FY2019 -- three years stale. The BPRA must mandate –and fund-- a financial accounting system capable of producing credible interim reports, and timely audited annual reports.

Under our system of public sector governance, the Legislature controls the public purse. It alone can raise public revenues and fiscal resources – via taxes, fees and borrowing – and it alone can authorize their expenditure. Therefore, it bears primary responsibility for ensuring the fiscal solvency of the GVI. The 35th Legislature will likely have the last opportunity to ward off the wolf.

Submitted on Wednesday, March 15 by: Nellon Bowry, former Office of Management and Budget director, and former Government Employees' Retirement System board chairman.