



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE
Charlotte Amalie, V.I. 00802
340-774-0001

May 30, 2008

Honorable Usie R. Richards
President
27th Legislature of the Virgin Islands
Capitol Building
St. Thomas, VI 00802

RE: Executive Budget for Fiscal Year 2009

Dear President Richards:

It is both my statutory duty and pleasure to forward to you for consideration by you and the members of the Virgin Islands Legislature (the "Legislature") the Executive Budget for Fiscal Year 2009 ("FY2009"). The budget outlines the funding required for the Government of the Virgin Islands (the "Government") to maintain the services required by our residents and the operation of their Government. The budget also, to the extent that our severe financial restraints permit, includes initiatives that Lieutenant Governor Gregory R. Francis and I believe are central to our continuing efforts to improve the quality of public services in our Territory, as well as to implement programs as required by measures passed by the Legislature. It is our sincere intent to continue to work very closely with you and members of the Legislature to ensure that the people of our community receive the very best services that our collective leadership can provide to meet their needs and aspirations.

Many of the longstanding and deeply-rooted challenges we face as a Government and as a community were made worse this past year by economic and financial developments that are well beyond either our control or even our ability to significantly mitigate. All Virgin Islanders individually, as well as their Government, have been hurt by the rising price of oil as well as by the "bursting of the credit bubble" in the US and globally. Be it the impact on the price of utilities or transportation, or the disruption of the real estate markets and the slackening of business investment generally, we have all been affected. We do not anticipate a significant change in the economic environment of the U.S., and therefore its impact on our economic affairs, any time soon. However, we believe there is some credible evidence that by the commencement of calendar year 2009 there could be some improvement in consumer confidence

and from that we draw hope that improved economic conditions will follow sooner rather than later.

For FY2009 we project General Fund Revenues of \$869.6 million, up \$67.20 million, driven primarily by higher Net Income Taxes (up \$32.9 million), and Real Property Taxes (up \$44.15 million), and Gross Receipts Taxes (up \$8 million). Some of this improved performance represents an inflationary increase and some anticipates enhanced collections primarily of Corporate and Individual Income Taxes. In FY2008, the Bureau of Internal Revenue completed a comprehensive review of its collections processes with the assistance of the U.S. Internal Revenue Service and is implementing a Ten-Point Plan in this area. The Real Property Taxes category again represents the issuance of two years' tax invoices. Gross Receipts Tax projections reflect the caution with which we must view the economic environment for the first half of the year, especially since the majority of visitors are from the still-struggling U.S. mainland.

The projections noted above, however, also must be matched by a reduction of operating transfers to support the General Fund that will be dropping from \$78.2 million in FY2008 to \$57.9 million in FY2009 primarily as a result of reduced transfers from the Caribbean Basin Initiative and Insurance Guaranty Fund. Once we off-set for financial obligations paid from General Fund resources, which number \$60.2 million, up \$3.9 million, the Total Financial Resources available in FY2009 are projected at \$867.3 million.

Administering a budget that meets our responsibilities while recognizing our limitations has been especially difficult this budget cycle given the impact of the dramatic shortfall in real property tax collections during the past fiscal year. This local reality has greatly compounded the effects of the worsening economy. Our FY2009 budget submission does not ignore these realities. Rather it is mindful of them and seeks to address them equitably. For we all are faced with, and cannot ignore the following challenges:

- ***Increased and increasing personnel service costs arising from on-going negotiations and the implementation of negotiated salary increases.*** Our employees are the backbone of our Government and it is they who provide the services of Government. We cannot ignore the requirements of labor negotiations where contracts have expired and market conditions dictate salary adjustments. Our management challenge is to increase productivity to levels commensurate with the duties of the position while compensating our people fairly for the work expected of them. In FY2008, we completed the negotiation of six (6) labor agreements, and have scheduled five (5) agreements for FY2009. We have budgeted \$28.3 million for anticipated increases. The work of the Retroactive Commission will continue in Fiscal Year 2009. We believe that a more comprehensive analysis of our funding obligations and requirements will be ready by mid-FY2009.
- ***Increased and increasing health insurance and retirement costs.*** This is a challenge that confronts both the private and public sector employees and employers. In order to moderate the full impact of the continuing increase in health insurance costs arising from the agreements with CIGNA, we have budgeted for an employer/employee sharing arrangement of 60/40%, which is a slight adjustment from 65/35%, which has been in place since July 14,

2003. In Fiscal Year 2003 the bi-weekly premiums were: single coverage \$158.10 and bi-weekly family coverage \$281.67. In Fiscal Year 2008 the bi-weekly premiums are: single coverage \$216.51 and bi-weekly family coverage \$380.89.

- ***Increased and increasing utility costs.*** We have initiated an aggressive energy conservation program with Executive Branch departments and agencies spear-headed by the Virgin Islands Energy Office ("Energy Office") that requires us not only to focus on this expenditure category, but also to achieve the 20% reduction in overall energy costs required by Act No. 6978. We have also entered into funding and program arrangements with the U.S. Department of Energy and the Southern States Energy Board to address these issues. It is my intent to have the Energy Office work closely with the Virgin Islands Water and Power Authority on the implementation of their alternative energy program once the vendor(s) are selected by the Authority's Board of Directors.
- ***Requested program expansions in certain departments and agencies.*** We have included funding to address an expansion of the child care program to increase the daily subsidies and expand the number of participants; funding to undertake the renovation of a building to provide needed housing for our homeless; and, funding to provide long-term care at the expanded Eldra Schulerbrandt Long-Term Facility.

I believe that the future success of our community and of our people rests on our ability to meet the challenges we face in four essential areas: law enforcement, education, housing and economic development. Each of these four areas are inter-connected and inter-related. Together they form four foundation blocks upon which we can build successfully. Each of these foundation blocks was taken into account in developing the budget. Without success in addressing each and all of these areas, our people cannot succeed and neither can our government. Upon these four blocks we can, however, build an ever more vital and vibrant Virgin Islands. And so, this budget addresses these areas of focus and importance as matters of first priority.

In the area of law enforcement, we continue to have a primary focus of building the number of police officers to a staffing level that will result in increased visibility in our neighborhoods and improved responsiveness. Successful negotiations with the Police Benevolent Association will permit us to expand our recruiting horizon and thus improve our ability to achieve the needed numbers of police personnel. The refinement of our training program to sharpen its focus has enabled us to get our officers through the academy and on the street in a shortened time frame without shortchanging ourselves on the quality of instruction. We have ordered new police vehicles and have undertaken a review of the condition of our substations, and the main police headquarters on each island, in preparation for required improvements to these facilities. We continue the initiative of establishing a quality 911 Communications system throughout the Territory that is essential if our law enforcement officers and emergency service personnel are to be able to provide assistance when required. We are in the process of completing a contract to be fully implemented under the direction of an overall project manager as well as finalizing the configuration of the system and its tower requirements.

Additionally, we have included funding both for phase one for a Forensic Science Center and to upgrade and maintain the camera surveillance system throughout the Territory.

In the Department of Justice, we have included funding to hire an advisor to assist in the creation of a stand-alone Bureau of Corrections, mindful that the full funding in Fiscal Year 2010 for that Bureau will exceed present funding requirements for Corrections as it now exists within the Department of Justice. Additionally, we have included funding for the Witness Protection Fund. The importance of this funding cannot be exaggerated if we are to continue to encourage residents to assist us in identifying those in our community guilty of serious criminal acts.

In the area of Education, we are extremely pleased with the recent re-accreditation of our public high schools. Yet we must all acknowledge that continued focus and sufficient resources are required if we are to ensure that our children receive a world-class education. My Administration has shown its willingness to partner with the private sector with respect to after-school and extra-curricular activities where such partnerships are in the best interest of our students. These often expose our students to new opportunities and this is why I am so pleased with the partnerships we have with the World Ocean School and Rotary Club which expose our children to possibilities in the marine industry. We are fully aware of the investments required in all our schools, of the need for consistent maintenance programs generally, as well as specific problem areas such as the electrical work required at Central High School. We continue to work towards the identification of locations for a re-located Addelita Cancryn Junior High School and a new school on the island of St. John. And of paramount importance is continued and expanded investment in the professional development of our teachers, and to this end appropriate resources have been included in the budget.

In the area of Housing, I believe we will begin to see the fruits of our labor in the near term. I, again, take this opportunity to thank the Legislature for its approval of the centralization of all housing initiatives at the Virgin Islands Housing Finance Authority, thereby allowing us to leverage our financial resources to a broader objective and to focus the management of our human resources in a much more coordinated fashion. It is our belief that the Request for Proposals issued for fifty single family homes at Estate Donoe Affordable Housing Development, St. Thomas and fifty single family homes at Estate Bonne Esperance Affordable Housing Development, St. Croix will be under construction in FY2009, and that our FY2009 initiatives will begin earlier with both construction of units and underwriting of homeowner programs.

Our economic development initiatives continue to be impacted by the softening U.S. economy, the source of our investment capital, the ramifications of the 2004 American Jobs Creation Act, and the recently finalized and issued Internal Revenue Service regulations on residency and source income. The reality of these latter actions is that we have had to re-focus our program on new opportunities and markets. This will take time, and more time than we might like given economic realities. During this period, however, the importance of business retention and internal business development by those already doing business in the Territory cannot be ignored. Towards all these objectives, the Virgin Islands Economic Development

Commission has issued Requests for Proposals for assistance in developing a strategic and marketing plan and a cost-benefit analysis module to enhance our analysis of each application for benefits under its program. We will continue to initiate programs with our tourism partners to increase visitors to the Territory by leveraging public sector funds with private sector efforts, always seeking to meet or exceed our return-on-investment threshold of 3:1.

A critical component of job creation and economic activity is to ensure that our public sector capital projects are properly funded and then awarded to firms that will complete the projects on-time and within budget. There are over \$100 million in capital projects with appropriate funding at the Virgin Islands Public Finance Authority; some have been started with inadequate funding levels and others are now in the design process for later construction starts. Additionally, we have \$14.8 million in local funds and \$82.5 million in federal funds for road projects that have been subjected to current and prior-year appropriations. It is our intent, given the limitations on vendor options and supply resources, to give priority to these projects. The timely starts of these projects are key to the economic activity we require if we are to meet our FY2009 budget projections. A further challenge we face, though not one that falls within the scope of this budget submission, is the funding of an approximately \$700 million capital investment plan. We are currently developing strategies and will shortly submit to the Legislature a proposed funding strategy to fill this critical gap in our needs.

In addition to the foregoing initiatives, this budget provides for the following:

- Funding at the Department of Licensing and Consumer Affairs to hire a consultant to review gasoline pricing margins, and the acquisition of a new on-line database to facilitate the business application and licensing processes;
- Funding for the Third Party Fiduciary to address the financial issues confronting the Department of Education and in accordance with the 2002 Consent Decree;
- Funding to ensure that our recreation programs and initiatives are appropriately staffed, to permit the hiring of park rangers and a beautification coordinator to ensure that our recent investment in our parks are maintained;
- Funding to permit the Department of Agriculture to enter into a partnership with farmers to underwrite a program that will expand and broaden the production and delivery of crop products to our community.

It should also be noted that our budget has been developed in anticipation of the receipt of \$166.4 million in federal funding to augment programs and initiatives addressing poverty, protecting our environment, and providing social assistance and health care.

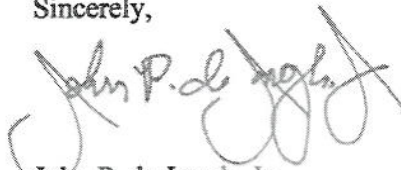
For the remainder of calendar year 2008, the Virgin Islands' economy is expected to face serious challenges. We are given no choice but to confront them honestly and directly. The disbursement of approximately \$41.5 million in economic stimulus checks to our community, funded by the U.S. Treasury, will undoubtedly have a positive impact and provide much needed

relief to our residents as they suffer in our present environment of high utility costs, high food prices and high gasoline prices. We anticipate a reduced level of cruise ship activity in the St. Thomas and St. John district during the summer months, but cruise ship arrivals will increase in the first quarter of FY2009, and we look forward to cruise ship traffic commencing in St. Croix during the second quarter of FY2009. We continue our meetings with the airlines as the Administration and the Virgin Islands Port Authority market the destination. All of our efforts in these many areas are enhanced and improved by increasing the coordination of government activities and policies while all the time welcoming the active participation of all in the private sector.

I respectfully ask that you and each of the members of the 27th Legislature give due consideration to this budget. Please know that my door is always open to each and every one of you so we can discuss issues of concern, develop solutions and implement programs and procedures that serve the best interest of our community and our residents. A strong partnership is critical to our success.

Thank you in advance for your consideration.

Sincerely,

A handwritten signature in cursive script, appearing to read "John P. de Jongh, Jr.", written in dark ink.

John P. de Jongh, Jr.
Governor