



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

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June 10, 2011

Honorable Ronald E. Russell
President
29th Legislature of the Virgin Islands
Capitol Building
St. Thomas, U.S. Virgin Islands 00802

Dear President Russell:

Enclosed is the proposed Executive Budget for Fiscal Year 2012 for the Government of the U.S. Virgin Islands ("Government"). I would like to express my appreciation to you for your leadership and for your determination to find common ground as together we move forward through these most difficult times. For several years now, we have faced and continue to face real challenges and economic stress as a Government, as our resources have been severely strained and the options for alleviating these pressures are few in the near term. This coming year, even more than in the current year, we must make do with less, we must make and live with hard decisions, and we must resist the temptation to evade our responsibility to make hard choices for our community. There are no easy ways around the issues we are grappling with or simple solutions to the problems that we face, but the duty to lead falls upon each of us that have chosen the path of public service and leadership, and I look forward to your continued positive collaboration in the weeks and months ahead, as together we embrace our responsibility to lead our community to a better future.

Without question, we have begun to feel the impact of public sector projects that have been completed. At the same time, we have been set back by the lost opportunity of private sector projects that were slated to have begun by now, but that remain on hold. Looking forward, we are hopeful that we have laid the foundation for growth in the private sector, and only through long-term growth and prosperity of the private sector will our Government once again find the resources to address our challenges.

In the early stages of the economic crisis, it was essential that we continue public employment to support demand for goods and services in our economy, as the private sector contracted -- laid off workers, reduced hours and reduced spending -- to survive the harsh downturn. Now, as the economy is beginning to stabilize and signs of growth are appearing, we in Government must live within our means. While we have made and will continue to make every effort to sustain our investments in education, healthcare, law enforcement and critical

social programs, this coming year we must meet the challenge of realigning expenditures with revenues and be more creative in how we execute our programs, provide services and manage our resources. We must, as the leaders of our community, make hard choices and do those things we must do, as difficult as it might be.

The Fiscal Year 2012 Executive Budget totals \$1.2 billion, including \$731.3 million for the General Fund. The Fiscal Year 2012 Executive Budget continues a number of ongoing initiatives that will be critical to providing basic and quality services to our citizens and visitors, maintaining our key physical assets and achieving a balanced budget. These include our aggressive efforts to improve and maximize the collection of our core tax revenues (including delinquent taxes), the necessary actions to reduce the total level of employment across the Government, and other expenditure reduction initiatives that have been designed to provide department and agency directors and managers with broad latitude and incentives to reduce costs and to improve productivity.

As you are well aware, this coming year we will not be able to rely on external borrowing to fund operations. Our external borrowing program was necessary to avoid the total collapse of our economy in the face of the contraction of the private sector and our core industries. But now, as the private market attempts to gain a firmer footing after the Great Recession, we must with this budget live within our means and rely only on our recurring receipts to fund operating expenditures. To do so will be painful, but we must move immediately to bring our monthly operating costs in line with our revenues and accept the cuts necessary to accomplish this most basic objective. These cuts will be felt across the Government and require reductions in the current appropriation levels of all departments and agencies, including the other branches of government and the semi-autonomous agencies.

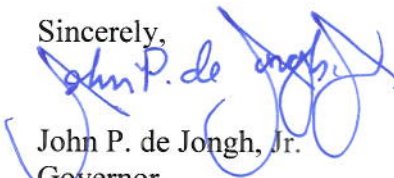
The General Fund operating budget for Fiscal Year 2012 is based on our net revenue projections of \$682.5 million. This revenue projection reflects the anticipated stabilization of our core revenue streams, with some modest growth. However, the impact of the recession on our core revenue streams remains severe, as projected total net revenues remain more than 100 million below pre-crisis levels. We project that Personal Income Tax and Corporate Income Tax collections will increase 7% from this fiscal year, while we project that Gross Receipts Taxes will increase by 20% from Fiscal Year 2011 levels. And, as we have discussed with the Legislature, the Fiscal Year 2012 Budget reflects the collection of two years of Real Property Tax bills. Without this latter action, the cuts we would have to make would be far more severe.

As in prior years, even as we face continuing revenue pressures, our Administration will continue to work to improve the quality public services across our Territory and to address long-standing problems and areas of concern. As such, even as we make difficult cuts we must continue our investments in education, in public safety, in public health and related environmental protection, in housing, in emergency preparedness, and in other critical areas. It is our intent to work closely with you and the other members of the 29th Legislature to complete a budget for the coming fiscal year that will meet the challenges that we face and sustain the quality of life across our Territory during the year ahead.

I ask that you and each of the members of the 29th Legislature give due consideration to this budget. I am committed to working with you in the months and years ahead to meet the challenges that we face as we emerge from these difficult times, and build a brighter future for our Virgin Islands and for all of our people.

Thank you for your consideration.

Sincerely,



John P. de Jongh, Jr.
Governor