MESSAGE FROM THE DIRECTOR

JULIO RHYMER, SR.
OMB DIRECTOR

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The Honorable Albert Bryan, Jr.
Governor of the U.S. Virgin Islands
Office of the Governor
5047 (21-22) Kongens Gade
St. Thomas, V.I. 00802

Dear Governor Bryan,

As required by Virgin Islands statute, I submit to you the Proposed Executive Budget for Fiscal Year 2026. This year's budget is based on the premise of "Empowering Progress: Revitalization, Sustainability and Financial Stability". As we continue to progress on revitalization of the territory, we are focused on sustained revenues into the future along with an added focus on building a solid financial foundation. A comprehensive review of all revenues and expenditures of the Government for the past three years and development of models that outline revenue and expenditure trends. These trends indicate that revenues will have minimal growth driven by additional recovery projects in the territory. The additional revenues will be used to offset mandatory expenditures incurred by the core entities to strengthen procurement, licensing, tax collections and financial reporting.

The primary focus of fiscal year 2026 is to reduce Government receivables. There will be a concerted effort for revenue generating entities to increase their enforcement of collection of taxes and fees. One such initiative is the shared economy to enforce compliance and payment of the taxes associated with the short-term rentals. This effort will be led by the Department of Licensing and Consumer Affairs. Another such initiative will be the collection of long overdue property taxes that exceed five years.

Introduction

Included in the proposed General Fund fiscal year 2026 budget of $936,426,140 there are efforts to enhance the core agencies. We have taken a highly conservative approach as when it comes to the FY 2026 budget due to the many uncertainties driven by the current environment in U.S. Government. This uncertainty is driven by cancellation or pauses placed on Grant within various agencies throughout the US Government that impact local Government agencies. As you are aware, the current economic environment is fluid due to the impact of tariffs. As we go through this budget cycle, there will be a need to adapt due to the fluidity of the political and economic environments.

Local Revenues

In addition to weekly cash flow analysis and projections, the Office of Management and Budget consistently forecasts quarterly and annual revenues and expenditures from all sources, with a particular focus on the General Fund. These forecasts inform our overall financial planning, guiding revisions to our forecasts and the five-year plan as needed.

Please note that legislation passed in late fiscal year 2025 will enable additional collections of new revenues that were not accounted for in the fiscal year 2026 projections, as well as prior fiscal years. While some decreases are anticipated, it is important to recognize that these additional revenues will help mitigate the projected decreases in local taxes for the fiscal year. These new revenues will also be identified in future revenue calculations.

The five major local revenue categories show varied growth and reductions compared to the fiscal year 2025, with a year-end estimate of $893,960,287 for all revenues. The forecast for fiscal year 2026 takes a conservative approach due to domestic and global environments that could adversely impact the U.S. Virgin Islands economy and the restructuring of the U.S. Federal Government and takes consideration of the numerous capital projects underway in fiscal year 2026.

Personal Income Tax (PIT)

Individual Income Tax (PIT) collections indicate a projected decrease of 2% from the fiscal year 2025 projection of $423.4 million to $414.1million for fiscal year 2026. This conservative projection is deemed prudent due to the unpredictable national and global economic climate, as well as potential political developments that could significantly impact the U.S. Territory of the Virgin Islands. However, the initiation of construction in Capital Projects slated for Mitigation and Disaster Projects in a projected amount of $78.5 million versus $13.5M for 2025 could realize potential collections increase amount to $492.5 million, or approximately 12.7%.

Corporate Income Tax (CIT)

Corporate Income Tax (CIT) collections indicate a projected decrease of 5% from the fiscal year 2025 projection of $78.8 million to $74.8 million for fiscal year 2026. This conservative projection is deemed prudent due to the unpredictable national and global economic climate, as well as potential political developments that could significantly impact the U.S. Territory of the Virgin Islands. However, the initiation of Capital Projects slated for construction in FY 2026 may help mitigate these negative economic impacts on the territory.

Real Property Tax (RPT)

Real Property Tax (RPT) collections indicate a projected increase of 2.5% from the fiscal year 2025 projection of $64 million to $65.6 million for fiscal year 2026. This optimistic projection is supported by the steady growth in real property values and the continued strength in demand. The economy's positive performance in this sector is expected to contribute to higher anticipated collections in property tax.

Gross Receipts Tax (GRT)

Gross Receipts Tax (GRT) collections indicate a projected increase of 3% from the fiscal year 2025 projection of $213.8 million to $220.2 million for fiscal year 2026. This upward trend is attributed to the anticipated capital project bundles and construction activities slated for fiscal year 2026, which are expected to contribute positively to the revenue collections. To include Gross Receipts Tax collected from Mitigation and Disaster Recovery projects estimated at $48.9 million vs $22.06 million for FY 2025, the potential collections increase will be $269.2 million, or 14%.

Excise Tax (ET)

Excise Tax (ET) collections indicate a projected increase of 1.5% from the fiscal year 2025 projection of $36.4 million to $37.0 million for fiscal year 2026. This sustainable growth trajectory is attributed to the tourism sector and planned capital construction industry activities slated for fiscal year 2026. These factors are expected to contribute positively to the revenue collections. To include Excise Tax collected in an amount of $11.7 million from Mitigation and Disaster Recovery projects could realize the potential total collections increase of $48.7 million, or 33.7%.

Other notable revenue increases can be found in various areas including the Hotel Tax/Non-Hotel slight increases in the preliminary actuals from fiscal year 2025 $44.4 million to revenue projections of $45.7 million, or approximately 3%, in fiscal year 2026. While Hotel and Non-Hotel Taxes are not part of the General Fund, this growth shows stability for the Tourism Revolving Fund. These funds are being tracked, along with other local funds, to provide an overall total revenue projection that aligns with proposed appropriations.

Overall, the General Fund Revenue projections of $864,132,155 for fiscal year 2025 have increased to a projected $936,426,140, or 7.7%, for fiscal year 2026. Additionally, while the General Fund is projected to collect net revenue, the gross Revenue collections are projected at $1,027,803,846.

The FY2026 budget predictions remain mostly consistent with those of the previous year, however, there is a notable change concerning the Department of Justice (DOJ). The DOJ has requested funding for a new Child Support payment system to meet the changing demands outlined in their grant Final Rule. The proposed budget for this system is $12 million, with a normal 66% / 34% match requirement. At this time, no communication has been received indicating whether the grantor will approve the proposed funding, however, it has been recommended that a Special Fund (non-General Fund sources) be utilized for the 34% match.

It is also important to note that spending on one-time grants such as the American Rescue Plan Act (ARPA) and COVID-19 grants decreases the budget availability presented, but these temporary grants have not led to major adjustments in long-term predictions.

Budget Overview – All Funds

The proposed Fiscal 2026 budget from the Government of the Virgin Islands includes expenditures totaling $1,759,678,223. This amount includes appropriated and non-appropriated funds as follows:

General Fund:	$ 936,426,140
Other Appropriated Funds:	$ 68,806,879
Federal Funds:	$ 691,867,747
Other Non-Appropriated Funds	$ 62,577,457
Total Budget:	**$1,759,678,223**

Federal Grants

The total federal grants funding projected to be available to the territory for fiscal year 2026 has increased significantly by 237% reaching $20,652,795,692. This is an extraordinary change compared to $8,706,908,404.85 presented in fiscal year 2025. As the previous year, the driver for the increase is the additional disaster funding allocated to the territory.

In addition to disaster funding, $691,867,747 of the projected total represents non-disaster related federal funds available to the Government of the Virgin Islands. This amount includes $37,129,254 from the Department of Interior's Office of Insular Affairs. This continued support provides the resources towards disaster recovery/mitigation and overall improvement in the territory.

I would be remiss to not highlight the environment within the Federal Government which continues to be fluid as US Executive Orders have imposed new requirements and restrictions on federal grant spending or delayed issuance of yearly funding opportunities as languages in the applications are being updated by the granting agencies based on Executive Orders. These orders have created challenges for grant administrators in complying with changing regulations. As many of these orders are being contested in courts, the FY2026 budget remained consistent in budgeting of the formula grants, with no significant decreases included, due to the unpredictability, and only communicated cancellations were adjusted. As these events unfold, the USVI must remain vigilant and adaptable to potential changes in funding and eligibility criteria with prioritization of federal spending on most critical needs while the environment stabilizes.

Despite the challenges posed by federal regulations, there is a positive aspect for local states and territories. The evolving landscape may provide an opportunity for increased autonomy in decision-making regarding grant spending if provided directly to them. The Government of the Virgin Islands would be able to leverage its knowledge of local needs and environments to make more informed and effective spending choices. This independence would allow for a more customized approach to addressing issues and projects that are most pertinent to our communities.

Overall, due to the uncertainty, we must remain adaptable to both the challenges and opportunities in the Federal grant environment with an aggressive approach to expend all funds in a compliant and timely manner.

Conclusion

In conclusion, the submission of the Proposed Executive Budget for Fiscal Year 2026 titled "Empowering Progress: Revitalization, Sustainability and Financial Stability", continues this Administration's legacy of financial transparency and accountability for Government of the Virgin Islands. As we look ahead, there must be collaboration to ensure that investments are made now and into the future with local and federal funds, place the territory on a firm foundation for growth, resiliency, and improved living conditions for the people of this territory.

On behalf of the Office of the Management and Budget, we thank you for the confidence to produce your Administration's penultimate Proposed Executive Budget.

Respectfully,

Julio Rhymer, Sr.
Director
Office of Management and Budget