COMMITTEE ON BUDGET, APPROPRIATIONS AND FINANCE

GARY MOLLOY
COMMISSIONER

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Good day, Honorable Senator Novelle E. Francis, Jr., Chairman of the Budget, Appropriations and Finance, Honorable Members of the Committee, distinguished Senators of the 36th Legislature of the Virgin Islands and listening and viewing audiences. I am Dr. Gary Molloy, Commissioner of the Virgin Islands Department of Labor (VIDOL).

I am joined today with Jean Forde, Assistant Commissioner and Gary Halyard, Director of Bureau of Labor Statistics (BLS). Thank you for inviting us to testify on Bill No. 36-0030, as amended, which proposes increasing the minimum wage for private-sector workers in the U.S. Virgin Islands. We appreciate the Legislature's careful review of this important issue and the thoughtful updates reflected in both the original bill and the recent amendment.

Support for the Minimum Wage Increase

The Department of Labor supports this legislation. The cost of living in the Virgin Islands has risen sharply over the past decade, but wages have remained the same. Since the last minimum wage adjustment in 2015, our community has faced major disruptions including Hurricanes Irma and Maria, the COVID-19 pandemic, higher shipping costs, and ongoing inflation.

These pressures have increased the cost of nearly everything food, rent, utilities, gas, and healthcare. Workers earning the lowest wages feel these increases most. When we adjust the 2015 minimum wage of $10.50 for inflation, it would equal about $14.40 in 2025, which shows how much buying power workers have lost.

This wage stagnation has also caused many young Virgin Islanders to seek work elsewhere, which weakens our local talent pool and makes it harder for businesses to find and keep qualified workers.

Recent Economic Relief for Employers

As we consider raising wages, it is important to acknowledge a major development that helps businesses at this time.

On November 10, 2025, the U.S. Department of Labor approved the 2025 FUTA Credit Reduction Waiver for the U.S. Virgin Islands. This means that our employers will not face an increase in their federal unemployment tax rate for the 2025 tax year. This decision provides real financial relief and stability for the private sector.

Securing this waiver required strong collaboration between VIDOL, the Office of the Governor, and our federal partners. It reflects the Territory's continued improvement in managing our Unemployment Insurance Trust Fund responsibly.

This relief supports the Legislature's effort to increase wages gradually, because it reduces another potential burden on our business community.

Understanding the Revised Amendment

The revised amendment to Bill No. 36-0030, updated on November 13, 2025, outlines a new schedule for gradually increasing the minimum wage. Under this amendment, the minimum wage would rise to **$12.00 on March 1, 2026**, then to **$14.00 on March 1, 2027,** and finally to **$15.00 on March 1, 2028.** Beginning in 2029, the minimum wage would be adjusted annually to reflect changes in the cost of living. The amendment also clarifies that these increases apply to employees excluding students.

Governor Bryan's proposal follows a similar approach, reaching $15.00 by 2028. Although the timelines differ slightly, both proposals share the same goal: bringing wages closer to the actual cost of living while still giving businesses enough time to plan and adjust.

Clarifying the Cost-of-Living Adjustment (COLA)

A key part of the amendment is the introduction of annual cost-of-living adjustments starting in 2029. However, **the current language does not clearly explain how these adjustments will be calculated.** Without clear guidance, workers and employers could be left uncertain or confused about future wage changes.

For this reason, the Department recommends that the Legislature provide more specific details, including:

- The exact formula or economic index that will be used
- When and how adjustments will be determined
- Whether the adjustment will occur automatically or if it must be approved each year

A clear and transparent method will help workers and employers better prepare for future changes and avoid misunderstandings.

Student Exclusion

The revised amendment excludes students from the minimum wage increases. VIDOL acknowledges this change and is prepared to provide further analysis if requested. However, we must note an important concern: creating a separate, lower minimum wage for students, especially when students perform the same scope of work or identical tasks as non-student employees, could place students at risk of being underpaid or taken advantage of.

This type of differential wage system can unintentionally incentivize employers to hire students primarily because they cost less, rather than because the role is designed to support learning or skill development. Such a system could also lead to increased monitoring and investigations to ensure that students are not being misclassified or used to replace regular workers, diverting resources away from more strategic workforce priorities.

Instead of focusing on policing potential abuses, VIDOL believes it is more productive to concentrate on the positive role that student employment can play in the Territory. Student employment, when structured correctly, can support early work experience, strengthen youth apprenticeship pathways, and contribute to long-term career development. These opportunities help students build skills, gain confidence, and prepare for meaningful participation in the workforce after graduation.

For these reasons, VIDOL encourages continued dialogue to ensure that any policies affecting student workers promote fairness, protect young people, and reinforce our broader workforce development goals.

Projected Minimum Wage Needs for 2028–2029

If inflation continues at its current pace, the inflation-adjusted value of today's minimum wage could rise to approximately $15.00 to $15.50 by 2028 or 2029. This projection supports the phased-in approach because it helps ensure that workers are earning wages that keep up with rising living costs. VIDOL will continue refining these estimates using updated information from the U.S. Bureau of Labor Statistics (USBLS).

Why a Phased Approach Matters

A gradual increase in the minimum wage is essential for balancing the needs of both businesses and workers. Employers, especially small businesses, need time to adjust their budgets, staffing levels, and operational plans. At the same time, workers need wages that allow them to meet basic needs and keep pace with the rising cost of living.

A phased approach helps avoid sudden financial strain on employers while still providing meaningful wage gains for workers. Research shows that minimum wage increases can:

- Reduce employee turnover
- Improve productivity
- Strengthen customer service
- Increase local consumer spending

When workers earn more, they spend more in the local economy, which ultimately supports the Territory's overall economic health.

Impact on Workforce Development

From a workforce development perspective, this legislation also aligns with our broader goals at VIDOL. A competitive minimum wage helps us retain local talent, encourage young people to stay or return home, and reduce the brain drain that has challenged our labor market for years. It also supports our apprenticeship, youth development, and talent pipeline initiatives by ensuring that entry-level workers can build a stable foundation as they move into higher-skilled careers.

In closing, the Virgin Islands Department of Labor supports Bill No. 36-0030**, as amended**, because it offers a fair and balanced approach to addressing the rising cost of living and the economic pressures facing our community. The phased increases help restore wage value lost to inflation, support working families, and allow businesses time to adjust responsibly.

However, the Department's support **does not extend to the current cost-of-living adjustment language**, which must be clarified to ensure transparency and predictability.

The recent approval of the 2025 FUTA Credit Reduction Waiver provides significant relief to employers, making this an appropriate time to move forward with a carefully planned minimum wage increase.

To clarify, the Virgin Islands remains a FUTA credit reduction state because our Title XII loan balance has not yet been fully repaid. As a result, employers in the Virgin Islands will still experience a decreased FUTA credit for Calendar Year 2025.

However, the approved waiver provides relief from the additional "add-on" penalty that is normally applied each successive year the loan remains outstanding. In other words, while the base credit reduction still applies, the Territory has been granted a waiver from the extra annual penalty increase, which would have otherwise compounded the tax burden on employers.

The U.S. Internal Revenue Service (IRS) Form 940 instructions will include the specific calculation details and guidance for employers filing from the Virgin Islands. Therefore, the estimated cost savings per employer with the 2025 FUTA Credit Reduction Waiver will vary.

Additionally, while the revised amendment excludes students from the minimum wage increase, VIDOL must reemphasize that this distinction must be approached with care. Establishing a lower wage for students performing the same duties as other employees may create inequities and opportunities for misuse. VIDOL maintains that student employment should prioritize meaningful early work experiences and clear pathways to long-term career development. We therefore encourage continued dialogue to ensure that policies affecting student workers promote fairness, safeguard young people, and reinforce our broader workforce development goals.

Thank you for the opportunity to present this testimony. My team and I are available to answer any questions the Committee may have.