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FEDERAL LOANS FOR THE VIRGIN ISLANDS

GOVERNMENT

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DOCUMENTS

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KANSAS STATE UNIVERSITY BEFORE THE

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

S. 3357

A BILL TO AUTHORIZE LOAN FUNDS FOR THE GOVERNMENT OF THE VIRGIN ISLANDS, AND FOR OTHER PURPOSES

MAY 10, 1976



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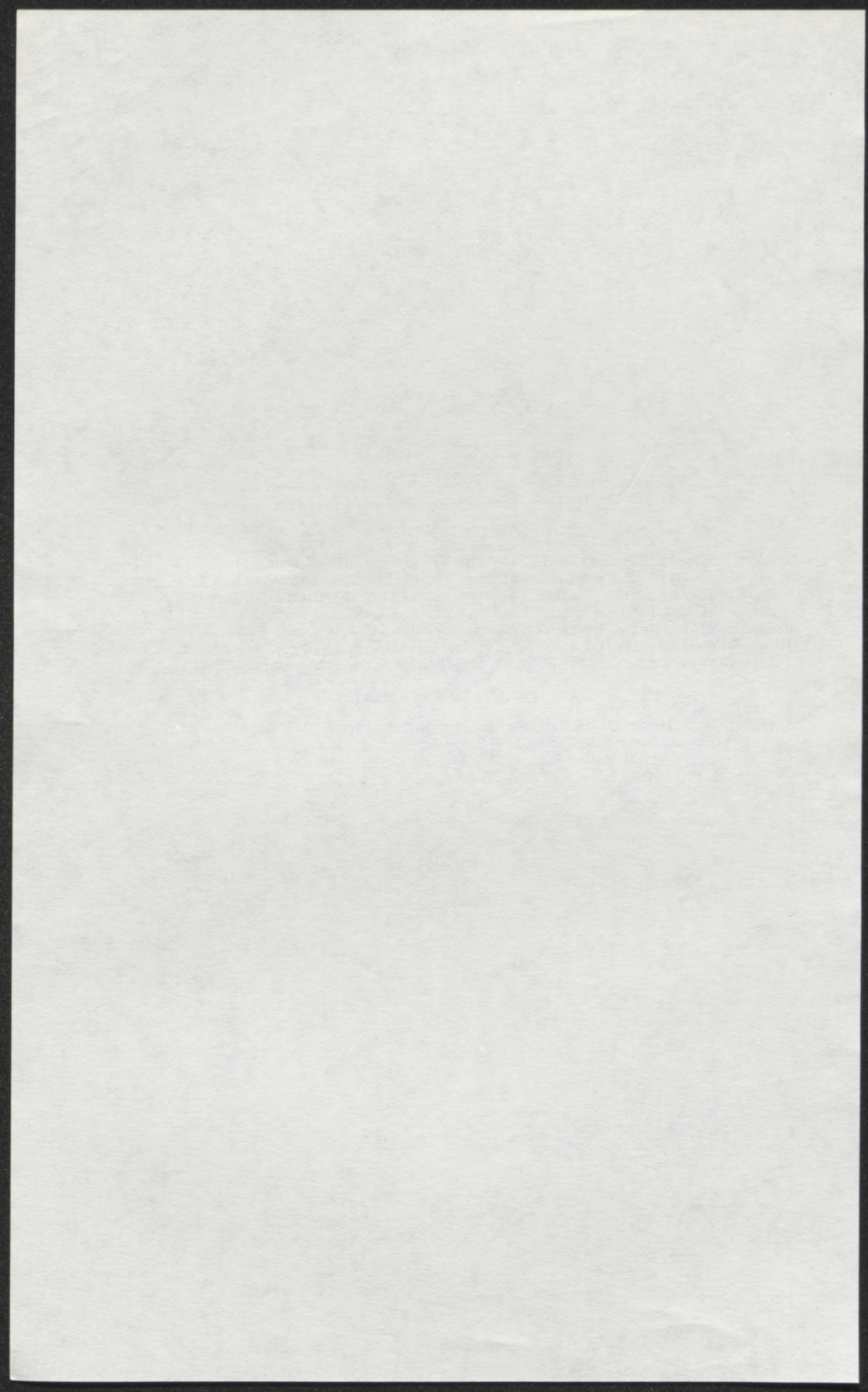
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FEDERAL LOANS FOR THE VIRGIN ISLANDS

MONDAY, MAY 10, 1976

U.S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

The committee met, pursuant to notice, at 10:30 a.m., in room 3110 Dirksen Office Building, Hon. J. Bennett Johnston presiding.

Present: Senators Johnston and Hansen.

Also present: James P. Beirne, counsel.

OPENING STATEMENT OF HON. J. BENNETT JOHNSTON, A. U.S. SENATOR FROM THE STATE OF LOUISIANA

Senator JOHNSTON. The hearing will come to order. In opening these hearings on S. 3357, a bill I introduced at the request of the Virgin Islands delegate, Ron de Lugo, I would like the record to show these hearings came very close to not being held at all, at least not before May 15, as most of the administration bill was introduced on April 26.

I checked with the committee staff about setting up hearings on the Long proposal. I was informed the committee was already booked up until June in the committee rooms. Further, after contacting some of my colleagues on this matter, it was expressed to me in no uncertain terms that rushing legislation like this was not the proper way for the Senate to conduct its business. Rightfully, I agree with them.

I believe the legislative process, at least in the Senate, requires more than just rubberstamping administration proposals. The Congress after all is a coequal branch of Government. I strongly believe requests for the democratic process requires more than sending a bill up here at the last minute and expecting Congress to act immediately without even first acknowledging that such a bill might be forthcoming.

I am concerned with the entire way this loan program has been handled and I would like to place in the record a letter the chairman of the committee has written to the Secretary of the Interior regarding these concerns.

I would also like to point out the reason we are here this morning is the persistent efforts of Virgin Islands Delegate, Don de Lugo. Congressman de Lugo spoke to me about this on Thursday, April 29, and I strongly urged at that time that hearings be held before May 15, the congressional budget deadline.

I told him at that time our committee schedule was such that I did not think it was possible. However, I agreed to check again and, on Friday, April 30, with the chairman's permission, I ordered the staff to change the schedule so hearings could be arranged. I frankly do not believe this is the appropriate way to legislate, but at least my willing-

ness to be here this morning is, in part, a testament to the persuasiveness of Ron de Lugo.

I believe the people of the Virgin Islands should be commended for sending someone of his ability and persistence up here to get things done for the Virgin Islands.

At this point I will place in the record the executive communication, the text of S. 3357, and the chairman's letter to the Secretary of the Interior.

[The material referred to above follows:]

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., April 7, 1976.

HON. NELSON A. ROCKEFELLER,
President of the Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Enclosed is a draft bill "To authorize loan funds for the Government of the Virgin Islands and for other purposes."

We recommend that the bill be referred to the appropriate Committee for consideration and that it be enacted.

At present there is a fiscal crisis confronting the territorial Government of the Virgin Islands. This crisis is due to the state of the economy and government revenue collection capability. Tourism—the largest industry and major contributor to the gross domestic product of the Virgin Islands—has declined over the past three years. This decline was caused by the worldwide recession, local disturbances, and the reduced attraction of the islands' freeport status. The latter was the result of the devaluation of the U.S. dollar and the lowering of tariff barriers on the mainland United States. The decline in tourism precipitated the reduction of public revenues from this industry.

In addition to this revenue decline, the Tax Reduction Act of 1975 (and the amendment which extended it) with its rebate provisions, negative income tax, liberalized investment credits, and other tax reduction features, further reduced the revenues available to the Virgin Islands Government.

The purpose of the Tax Reduction Acts was to stimulate the economy. While this was achieved in the continental United States, the Acts had the opposite result in the Virgin Islands.

In practice, under the Tax Reduction Acts, people would have more money to spend, which would improve the demand for goods and services. This would have a multiplier effect on the economy, and thus it would improve. Such was true in the United States. However, most of the goods and services in the Virgin Islands come from the continental United States. The new money in the Virgin Islands quickly went to the mainland without improving the Virgin Islands economy. Estimated losses of Virgin Islands Government revenues as a result of these Acts approximate \$15 million.

The loss of government revenues meant a corresponding reduction in expenditures. Since the taxing authority and public indebtedness of the Virgin Islands is, by law, far more restricted than that of the U.S. Government or many States, the Virgin Islands cannot compensate for the loss of revenues.

At the beginning of fiscal year 1976 the revenues projected for the the Government of the Virgin Islands exceeded \$132 million. Proposed expenditures for government operating costs were equal to that amount. That revenue amount included \$20 million in anticipated receipts from custom duties on petroleum products imported into the United States from the Virgin Islands. However, the Department of Justice has ruled that there is no legal authority in the U.S. to make these payments, and thus, they are not available. Actual receipts for the first half of fiscal year 1976 suggest maximum receipts of \$92.5 million from all taxes, fees and fines, including moneys collected from hospital operations. Executive action such as reducing expenditures and increasing revenues yielded a balanced budget of \$117.1 million.

This included the transfer into the operating budget of capital improvement funds in excess of \$25 million, a severe curtailing of government services, and a personnel reduction of 346 employees. The government is the primary employer in the Virgin Islands and the rate of unemployment prior to the government lay-off already exceeded 9% of the work force.

In the areas of health and education these reductions have been most pronounced. The reductions in health personnel required reducing the number of

hospital beds and limited the service capability of the Virgin Islands' two hospitals.

The schools are understaffed and over crowded. In 1970 the school system admitted all non-citizen (alien) school-age children legally residing in the Virgin Islands. The enrollment increase since then has been 58.3%, with a serious impact on education services.

To meet its service responsibilities to its citizens, the Government of the Virgin Islands has, from 1971 through 1975, deferred \$31 million worth of capital improvement projects to make these moneys available for operating expenses. Without financial relief, an additional \$30 million in capital projects will have to be deferred in fiscal years 1976 and 1977. This is a total of \$61 million for the period fiscal years 1971 through 1977.

The Government of the Virgin Islands needs legislation and Federal assistance through loans to stimulate the economy. Such assistance will allow the territory to balance the operating budget at an acceptable level of services by fiscal year 1979.

The attached draft bill would deal with the effects of the Tax Reduction Acts and the deferred capital improvements projects. Section 1 would amend the Act of July 14, 1921, to authorize the Government of the Virgin Islands to levy a surtax, not to exceed 10%, on the future income taxes payable to the Government of the Virgin Islands. The 1921 Act provides that the income tax laws in force in the United States shall be likewise in force in the U.S. Virgin Islands, except that the proceeds of Virgin Islands taxes shall be paid into the Virgin Islands Treasury. This amendment would enable the Government of the Virgin Islands to respond to changes in the income tax laws of the United States. Along with the present estimated \$15 million loss in revenues, the Virgin Islands expects to lose \$5 million annually in future revenues under the Tax Reduction Acts.

Section 2 would authorize loans up to \$15 million to supplement the operations budgets of the Government of the Virgin Islands for their fiscal years 1977 and 1978. Their operating expenditures for fiscal year 1975 amounted to \$117 million; fiscal year 1976 expenditures are projected at \$117.1 million. The Government of the Virgin Islands has proposed an austerity budget of \$118.6 million for fiscal year 1977 but estimates revenues at only \$110.1 million. There is a shortfall of \$8.5 million. Given the effects of inflation and past cuts in expenditures, government services are already at unacceptability low levels. A loan of \$15 million would allow the balancing of local 1977 and 1978 budgets at acceptable levels of services. These loans for operations taken together with the economic recovery stimulated by the capital improvement program loans proposed in section 3 would result in increased revenue collections by the government. It would then be capable of balancing its fiscal year 1979 budget without further assistance.

Section 3 would authorize \$61 million in loans to bring the Virgin Islands long-delayed capital improvement program up-to-date. How quickly these funds are requested for appropriation will depend upon review of proposals by the Government of the Virgin Islands, however the legislation would allow the funding to be spread out over five years. The Virgin Islands cannot borrow for non-revenue producing purposes under the Revised Organic Act of the Virgin Islands. Thus, if the capital improvement program is to be implemented at this time, the Virgin Islands will need a Federal loan.

Section 4 would provide the conditions and repayment provisions for the loans authorized pursuant to sections 2 and 3. Amortization of the loans would begin July 1, 1982 and be paid back over 10 years, with interest equal to the average yield of outstanding marketable obligations of the United States of comparable maturities. In our judgment, since funds will become available to the Virgin Islands through the expiration of certain industrial tax exemptions in 1978 and 1981, the government will be readily able to amortize any debt incurred through this provision. It is anticipated that after 1981 the Government of the Virgin Islands will benefit from up to \$100 million annually in additional revenues due to the expiration of these exemptions.

Under section 5 of the draft bill, the Secretary would be able to place any stipulations he deems appropriate on the loans to the U.S. Virgin Islands.

The Office of Management and Budget has advised that there is no objection to the presentation of this legislative proposal from the standpoint of the Administration's program.

Sincerely yours,

JOHN KYL,
Assistant Secretary of the Interior.

Enclosure.

94TH CONGRESS
2D SESSION

S. 3357

IN THE SENATE OF THE UNITED STATES

APRIL 29, 1976

Mr. JOHNSTON (by request) introduced the following bill; which was read twice and referred to the Committee on Interior and Insular Affairs

A BILL

To authorize loan funds for the government of the Virgin Islands, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That chapter 44, section 1, of the Act of July 12, 1921 (42
4 Stat. 123; 48 U.S.C. 1397) is hereby amended by striking
5 the period at the end thereof and inserting in lieu thereof the
6 following language: “: *Provided further, That, notwith-*
7 standing any other provision of law, the Legislature of the
8 Virgin Islands is authorized to levy a surtax on all taxpayers
9 in an amount not to exceed 10 per centum of their annual
10 income tax obligation to the government of the Virgin Is-
11 lands.”.

1 SEC. 2. There is hereby authorized to be appropriated
2 to the Secretary of the Interior \$15,000,000 to be paid as
3 loans to the government of the Virgin Islands to be used
4 for operating expenses.

5 SEC. 3. (a) The purpose of this section is to provide
6 the Virgin Islands with funds for the construction of neces-
7 sary public works, including the acquisition of real prop-
8 erty.

9 (b) There is authorized to be appropriated to the Sec-
10 retary of the Interior not to exceed \$61,000,000 to carry
11 out the purposes of this section, to be paid to the govern-
12 ment of the Virgin Islands in such sums as may be requested
13 by the Governor of the Virgin Islands with the concurrence
14 of the territorial legislature and approved by the Secretary
15 of the Interior, and such moneys as may be appropriated
16 shall be available until June 30, 1980. Funds appropriated
17 pursuant to this section shall also be available for use by
18 the government of the Virgin Islands to permit the Virgin
19 Islands to qualify for participation in Federal programs
20 relating to public works and community development for
21 which the Virgin Islands is otherwise eligible.

22 SEC. 4. Repayment of the loans under sections 2 and 3
23 of this Act shall commence no later than June 30, 1982,
24 in such amounts as the Secretary of the Interior estimates
25 will reimburse the United States, with interest as set forth

1 below, over a period of ten years. These repayments may
2 be made in the form of withholdings by the Secretary of the
3 Treasury from sums collected pursuant to section 7652 (b)
4 of Public Law 83-591 (68A Stat. 907; 26 U.S.C. 7652
5 (b)) as amended, before such sums are transferred to the
6 government of the Virgin Islands. The foregoing amounts,
7 until reimbursed to the United States, shall bear interest
8 beginning on the date when the moneys are advanced, at a
9 rate determined by the Secretary of the Treasury, taking
10 into consideration the average yield on outstanding market-
11 able obligations of the United States of comparable maturi-
12 ties as of the last day of the month preceding the advance,
13 adjusted to the nearest one-eighth of 1 per centum. All
14 sums so withheld shall be deposited in the Treasury of the
15 United States as miscellaneous receipts.

16 SEC. 5. The Secretary shall place such stipulations as he
17 deems appropriate on any loans to the Virgin Islands pur-
18 suant to sections 2 and 3 of this Act.

19 SEC. 6. No portion of the sums to be repaid by the
20 government of the Virgin Islands to the United States, as
21 provided for in sections 2 and 3 of this Act, shall be con-
22 sidered to be public indebtedness of the Virgin Islands with-
23 in the meaning of section 8 (b) of the Revised Organic Act
24 of the Virgin Islands (68 Stat. 500; 48 U.S.C. 1574 (b)).

25 SEC. 7. Before concurring in any request for a loan pro-

1 posed by the Governor under this Act, the Legislature of the
2 Virgin Islands may initiate, by majority vote of the members,
3 a referendum vote to approve or disapprove (1) the amount
4 of any such loan, (2) any item of expenditure for which
5 any such loan is requested, (3) the aggregate amount of
6 such loans requested by the Governor for any fiscal year, or
7 (4) any combination of the foregoing.

MAY 4, 1976.

HON. THOMAS S. KLEPPE,
Secretary of the Interior, U.S. Department of the Interior, Washington, D.C.

MY DEAR MR. SECRETARY: I am writing in response to the April 27, 1976, letter from Emmett M. Rice, Deputy Director of Territorial Affairs requesting that draft legislation to authorize loan funds for the Government of the Virgin Islands be introduced and the hearings be scheduled to meet the May 15th deadline imposed by the Congressional Budget Act.

I am deeply disturbed by the cavalier manner in which the Department is handling this legislation. The draft bill was introduced promptly upon receipt as well as a similar measure introduced by Senator J. Bennett Johnston at the request of Congressman de Lugo.

I am well aware of the May 15th deadline of the Budget Act. I am concerned that the Department would submit this legislation just prior to the Easter recess leaving the Congress barely three weeks to consider it. There have obviously been discussions between the Department and the Virgin Islands Government for some time with full knowledge of the Budget Act requirements yet no notice was given to the Congress. I have also noticed that the loan program does not appear in the President's budget submission and have been informed by the Appropriations Committee that no request for appropriations have been initiated with them.

The entire history of this legislation leads me to question the Department's sincerity in urging Congressional action.

In the assumption, however, that the Department is interested in this legislation, I have altered the Committee schedule to permit a hearing on the legislation introduced by Senator Johnston, S. 3357, on Monday, May 10, at 10:30 AM, in room 3110 of the Dirksen Building.

The Full Committee will meet in markup session later that week to consider measures pending before the Committee. If the Committee is to report legislation prior to May 15, it will be necessary for the hearing record to be complete. I would, therefore, expect the Department to be ready to answer all questions relevant to the economic condition of the Virgin Islands, the need for this loan program, available bonding authority for the Virgin Islands and other related areas at the hearing. In view of the reordering of the Committee schedule necessitated by the late submittal of the draft legislation, the Department's witness will be requested to file his statement and supporting materials for the record so the Committee will be able to better utilize the hearing time in questioning.

I would appreciate receiving 10 copies of the witnesses' prepared statement at least 24 hours in advance and 50 copies at the time of the appearance.

Sincerely yours,

HENRY M. JACKSON, *Chairman.*

Senator JOHNSTON. Congressman de Lugo.

STATEMENT OF HON. RON de LUGO, A DELEGATE FROM THE VIRGIN ISLANDS

Congressman DE LUGO. Thank you very much, Mr. Chairman. I want to thank you very much for presiding at the hearing this morning. I know exactly how busy you are and the U.S. Senate is, and the conflicts in meetings, and I would like to say before I begin my testimony that I hope you will excuse me; after I testify, I have to go back to the House; we have conflicts, too.

I have the Subcommittee on Territories bill on the compact of Puerto Rico, and at the same time, I have another subcommittee meeting on the New River legislation. Again, I want to thank you on behalf of the people of the Virgin Islands for really putting yourself out the way you have.

We have recognized, and as you have told me publicly and in private a number of times, the Virgin Islands does have great financial difficulties, and we would like to respond to those in a way consistent with reasonable ability of the Congress to do so.

Mr. Chairman, my statement will be very brief. The Governor of the Virgin Islands is with us, accompanied by the Director of the Budget and also by the Commissioner of the Commerce. The Governor has a very detailed statement, and also the statement of the Interior Department that accompanied the legislation is quite specific.

Mr. Chairman and honorable members of the Senate Committee on Interior and Insular Affairs, I am grateful for this opportunity to testify in support of S. 3357, a bill which you graciously introduced at my request, which authorizes \$76 million in Federal loans to the Virgin Islands government to meet its operating deficits and for capital construction projects.

This bill is identical to H.R. 13359, which was reported by the House Interior Committee by unanimous consent on Friday, April 30 and passed by the House on Monday, May 3, under suspension of the rules.

I would like to point out that these unusual procedures in the House, including the bypassing of the Subcommittee on Territories, was made necessary by the impending May 15 deadline mandated by the new Congressional Budget Act for all money bills.

I would also like to thank the chairman for his personal efforts which have resulted in the scheduling of these hearings. I fully realize that without your personal intercession, the present committee schedule would have prevented consideration of this legislation until after the May 15 deadline.

Mr. Chairman, the loan proposal is the product of negotiations between the Department of the Interior, the Office of Management and Budget, and the Virgin Islands government. It is designed to meet the territory's present fiscal situation, and it enjoys official administration support.

Originally, I had serious reservations about certain provisions in the draft bill negotiated by the administration, and I had planned to offer in the House Interior Committee a series of amendments designed to protect the interests of present and future generations of Virgin Islanders who would be charged with paying back these loans in full.

However, because of the lateness of the administration in sending up the bill, and the impending May 15 deadline, this was not possible under the unanimous consent procedures which were made necessary under the circumstances. As you know, it only takes one Member to object under these procedures, and if that had happened, we would have lost the bill.

Instead, on Wednesday, April 28, I introduced in the House a substitute bill, H.R. 13359, which is virtually identical to the administration bill, with the single addition of a provision empowering the Virgin Islands Legislature to call a referendum on all or any part of the loan.

While I still have serious concerns about the terms of the loan agreement, and I should like to point out that I have received a substantial number of letters from my constituents in opposition to any indebtedness at all, I believe that under the circumstances these concerns are best allayed by the referendum provision.

In my judgment, this provision puts the decisionmaking power on the loan question back where it belongs, back to the people themselves.

According to a survey by the Congressional Research Service, over

75 percent of the American people live in States which require referendums or constitutional amendments before borrowing of this nature can be undertaken.

I strongly believe that the Virgin Islands should be no exception to this well-established practice. More importantly, I believe this provision is in accordance with the best tradition of the Congress established over the last decade in granting ever-greater self-determination for the people of the Virgin Islands: the people who will be charged with paying back these loans should have a voice in deciding whether and how much debt they wish to undertake.

Agreeing with this approach, a clear majority of the members of the House Subcommittee on Territories cosponsored my substitute bill, including the chairman of the subcommittee, Phillip Burton, and the ranking Republican member, Don Clausen.

Given the constraints of the May 15 deadline, I endorse S. 3357, the companion bill to H.R. 13359, which allows the people of the Virgin Islands to have a say in this matter which is so consequential to their future.

Mr. Chairman, at this time, I would like to bring to your attention two technical amendments which have been suggested by the House legislative counsel and which I hope the members of this committee will consider when this legislation is finally acted upon. For the record, I have attached copies of the two amendments at the end of my statement.

The first amendment merely restates what the committee report to H.R. 13359 makes clear, that the Legislature of the Virgin Islands may specify whether the results of any referendum which is called shall be advisory or binding.

The second amendment merely spells out the procedures under which loans for operating expenses are drawn, procedures which, through a drafting oversight, were left out entirely. This amendment would make these procedures conform to those already specified in the bill for capital loans.

Thank you very much.

[The amendments to S. 3357 by Congressman de Lugo follow:]

Amendment No. 1.—Page 4, line 7, after the period insert the following: "In initiating such referendum, the Legislature may specify whether the results thereof shall be advisory or binding."

Amendment No. 2.—Page 2, line 4, after the period insert the following: "Such amount may be paid to the Government of the Virgin Islands in such sums as may be requested by the Governor of the Virgin Islands with the concurrence of the territorial Legislature."

Senator JOHNSTON. Thank you very much, Congressman de Lugo. First, let me say, I very much agree that people in the Virgin Islands should approve the funding of any indebtedness. I think this is a basic operating procedure, that people in the States have a right to participate in, and I have no reason to withhold that.

Second, and I am just giving my own views now, and they are not final views, but they are things I would like you to be thinking about because we will soon get into markup of provisions of this bill, that we should have no loan for operating expenses.

I think that is a very bad precedent. I think it violates virtually every financial rule in the books, to borrow money for operating expenses. The capital improvements are quite different, and I think

should be authorized. It is my feeling rather than borrow money directly from the Federal Government and get the Federal Government put into the creditor-debtor situation, it is my view we ought to allow the Virgin Islands to borrow money directly in the capital markets and to do so with a pledge of the revenues that would be coming from the United States in terms of the rum tax and the other revenues that are collected and remitted to the Virgin Islands.

These are funds coming to the Virgin Islands anyway. If we pass legislation permitting the Virgin Islands to pledge that revenue, it will, in effect, amount to the same thing as a loan from the United States. It would put the Virgin Islands in the capital market and get the money from elsewhere rather than from the United States.

Finally, I would feel it might be appropriate for the United States to give full faith and credit to these bonds and reinforce them with the full faith and credit of the United States. This would allow the borrowing of money; it would obviate the necessity of a budget resolution; it would get the very best interest rates available.

There is no better security than the full faith and credit of the United States, and it would be subject to approval by the people of the Virgin Islands. My good colleague, Senator Hansen from Wyoming, is here. I would like to ask if Senator Hansen has a comment.

Senator HANSEN. I do not, Mr. Chairman.

Senator JOHNSTON. Thank you very much, Congressman de Lugo. Did you want to respond to those ideas?

Congressman DE LUGO. I would like to give it some thought. I am supporting this legislation. Certainly the ideas you have put forth, it is, I think, the type of thinking that we would have been considering had we been given this matter in a timely fashion.

Our problem is we are so late with this legislation on the House side, we have to take it as they gave it to us with the referendum provision. I don't want to see us lose the bill. I will support the bill, but I do have some difficulties with the bill.

Senator JOHNSTON. I don't see how we can act on this thing by May 15; that is out of the question, I mean, in its present form. We would have to wait and have some modification of it, if I may say, for the benefit of my colleague here. We have two bills here, the administration bill and the de Lugo bill. The two bills are very similar except the de Lugo bill provides for a referendum of the people for the Virgin Islands to contract the debt.

The administration bill allows the Virgin Islands to place a 10-percent surtax on future income taxes payable to the Virgin Islands. It authorizes the Government of the United States to loan to the Virgin Islands \$15 million for operating expenses.

Third, it authorizes the U.S. Government to loan to the Virgin Islands \$61 million in capital improvements. Basically, that is it. The de Lugo bill is similar except it provides for a referendum of the people before the next contract. I was telling Congressman de Lugo it was my view, first, that we should have no loan for operating expenses as opposed to capital improvements.

I don't know if any State in the Nation, other than maybe New York—

Senator HANSEN. New York City certainly got into trouble following that type of action.

Senator JOHNSTON. The Virgin Islands is in a very difficult situation and it ought to be by grant rather than loan, a loan for operating expenses simply gets you in deeper and deeper.

Second, it is my view that rather than the United States lend the money to the Virgin Islands, we should authorize them to contract that debt for themselves. Let them pledge the Federal revenues that would otherwise be coming to them, in other words, if a State has a tax it can pledge that tax—so, we can give them authority to pledge that revenue and then upon meeting certain minimum standards, like, showing it can be repaid, then give them the full faith and credit of the Federal Government.

What it would amount to is giving them the ability to borrow themselves, after a vote of the people with the full faith and credit of the United States which would give them the best credit rate available and the best interest rate available. Then, they would be repaying the third party, to the public, not to the United States.

Congressman DE LUGO. May I respond to your thinking, Senator? If we had the bonding authority backed by the full faith and credit of the U.S. Government, I think we would be in very good shape. You also used a word there that is the key to this thing. Borrowing or going into debt to meet an operating deficit would be an unfortunate thing unless there would be some other way to do it.

You said a grant—the deficit we face in the Virgin Islands, the last I heard, was \$8.2 million for fiscal 1977 was brought on by the recession here in the United States, and certain peculiar and unique situations that developed in the Virgin Islands that no longer exist.

They were coming out of the recession, we are enjoying the best tourist season in the Virgin Islands that we have had in 2 years, whereas we have gone through a downturn—

Senator JOHNSTON. By the way, has that plane crash hurt things very much?

Congressman DE LUGO. It certainly didn't help. Senator. It is one of the things that the Governor is pushing for up here, that we get a safe jet airport.

Senator JOHNSTON. Have you had a decline in people coming in airplanes?

Congressman DE LUGO. There has been a decline, but I don't know if that is whether we are past the peak of our tourist season. I went in their only direct flight Friday and it was not full, we have finished with the carnival, so there is that downturn. I'm certain there are a number of persons who would cancel out because of the concern with the runway.

However, the FAA assures us, with the equipment they are flying in there, and with the restraints that they are flying in under, the airport is safe.

Now, you mentioned grants. Mr. Chairman. This was originally what I believe the Legislature and the administration had hoped, it would be a combination grant-loan. A grant to meet the deficit, but, this did not materialize.

As I understand it, the administration did not accept it. The second thing, regarding my provision for a referendum, the reason I feel that we have to have that referendum, the Virgin Islands has never gone into debt before. The Organic Act has prevented this in the past.

We may have come to that point where we may have to borrow or float bonds, if the Senate gives us that authority, but certainly, as we go into debt, it is something you have to discuss with the taxpayers, when it is the first time it has been done.

In the past, bonds were floated for the port authority or for a project that was self-liquidating. If the bond didn't stand up, that was your tough luck, but it was not an indebtedness of the taxpayer. Here we are saying, we may be putting this on the taxpayers, but, so, I believe the provision for referendum is a wise one.

First, it will call for public debate and thought and a full understanding of where we are going. At the same time, I recognize the fact the Governor is faced with this fiscal crisis, and we do have to do something immediately to help the Government of the Virgin Islands with this deficit and move forward. So, I think the thoughts of the chairman are certainly very interesting.

Senator JOHNSTON. Thank you very much, Congressman de Lugo. Do you have any questions?

Senator HANSEN. I don't think I do.

Congressman DE LUGO. I want to thank you too, Senator Hansen for being here this morning.

Senator JOHNSTON. Thank you.

We are honored this morning to have the Honorable Cyril E. King, the Governor of the Virgin Islands. We are pleased to have him and his testimony before this Committee.

STATEMENT OF HON. CYRIL E. KING, GOVERNOR OF THE VIRGIN ISLANDS, ACCOMPANIED BY JUSTIN L. MOORHEAD, BUDGET DIRECTOR; AND AUGUSTE RIMPEL, COMMISSIONER OF COMMERCE

Governor KING. Thank you very much, Mr. Chairman, members of the committee. It is a pleasure to be here today as Governor of the U.S. Virgin Islands, to address you on a matter of extreme importance to the well-being of the residents of the territory. Please accept my thanks on behalf of all Virgin Islanders for the early scheduling of hearings on this measure.

The Government of the Virgin Islands has serious financial difficulties. The level of essential services provided in areas of health, education, and public safety, and the concurrent infrastructure development of the territory has been curtailed severely as a result of an economic recession that has reduced local government revenues which are necessary to meet the operating expenses of the government.

Hospital beds have been closed, civil servants furloughed, payment of legitimate obligations deferred, construction of school, hospital, and public safety facilities canceled, and acquisition of waterline expansion, road improvements, and emergency equipment postponed.

Over the years the necessity of borrowing from all government funds to meet the needs of the operating budget has resulted in the depletion of surplus moneys in these accounts. The most critical example of this is the Internal Revenue Matching Fund.

This is the source of capital improvement moneys for the territory. In fiscal year 1976, less than \$1 million existed for initiating any new projects.

Over the past year, my administration has worked with the Department of the Interior and the Office of Management and Budget to clarify our financial needs. Immediate loan assistance will assist the Government of the Virgin Islands in turning around this critical situation and allow restoration of a satisfactory level of essential government service.

The revenue shortfall that has occurred in the U.S. Virgin Islands represents a combination of economic decline worldwide and Federal manipulation of the income tax system, with its resulting impact on government collections due to the special operation of the Internal Revenue laws within the Virgin Islands.

As the members of the committee are aware, tourism is the most important contributor to the Virgin Islands gross domestic product. Over the past few years, there has occurred a precipitous decline in the amount of revenues derived from this industry.

The major attractions of the territory are its weather, its beaches, and its freeport status, but demand for tropical vacations is low as a result of the recent recession. Our freeport status was severely affected by the devaluation of the U.S. dollar.

The prices of imported commodities and merchandise have increased over those prevailing in 1972. This has seriously eroded the competitive advantage of our tourist-related Virgin Islands businesses, especially those within the retail industry.

Furthermore, recent renegotiations of international tariffs have reduced sales by commercial enterprises, capitalizing on freeport status. A competitive edge can only be maintained over major stateside markets by insuring minimum overhead and low tax burdens. The losses in tax revenues are, as a result, significant.

Our efforts to diversify our economy have yielded some success. However, numerous factors exist to limit our capabilities in this area. Most prominent is the lack of affordable resources needed by most industries; easy access to major markets, cheap power and water, inexpensive or skilled labor.

Our small island settings preclude many of these desired features, and our ties to the U.S. wage scale places our labor market at a disadvantage, vis-a-vis, other Caribbean islands.

We have attempted to capitalize on certain preferred status exemptions offered by Congress over the years. However, increasingly these are being threatened by groupings on the mainland who believe these to be unfair advantage. The most recent example of this is the proposal to eliminate the Jones Act exemption on oil transport between the territory and the mainland.

Unilateral actions on the part of the Federal Government have also complicated our situation. The changes to the income tax rates with its liberalized exemptions, and negative income provision, have further eroded the revenue base of the local government.

The provisions of the U.S. law which tie the income tax of the Virgin Islands government to the Internal Revenue Laws of the United States preclude adjusting tax assessments to compensate for reductions in revenue receipts.

It was hoped that moneys due to the territory from the Federal Government could be obtained and thereby eliminate the need for a significant increase in the tax burden.

The U.S. Department of Justice's decision to disallow refunding some \$46 million of gasoline taxes and \$20 million of custom dues, the annual proceeds of levies imposed on petroleum products imported into the United States from the Virgin Islands, has set back the time period in which these moneys might be realized.

However, through the kind intervention of Senator Henry Jackson, legislation is being considered by Congress to return these Virgin Islands moneys to the territory for the use of its residents.

The economic condition is exacerbated by the population growth and the resulting demand for services that the territory has experienced within the past 10 years.

In 1965 the population of the three major islands of the Virgin Islands was estimated at some 49,742. In 1975, this figure had increased to 99,981. This represents a 100-percent increase within a 10-year period.

The negative impact of rapid population growth on government services has been aggravated and intensified by two recent legal developments. Public Law 91-225, passed by Congress in 1969, admitted spouses and children of non-immigrant-alien workers into the U.S. Virgin Islands and, a Federal district court ruling, *Hosier et al. 8 V.I. 27*, District Court of the Virgin Islands, admitted all noncitizen school age children legally residing in the Virgin Islands to public school.

The result is that an already strained public school system experienced a 53.5-percent enrollment increase in the 5 years since the court ruling.

In addition, this substantial population growth during the latter half of the sixties, a period characterized by stable economic growth, has translated into present unemployment levels exceeding 10 percent during the current period of fiscal recession.

When I took office a little more than a year ago, the fiscal crisis was already upon the territory. The immediate causes were grossly over-inflated revenue projections and an economic environment buffeted by the worldwide recession.

These problems overshadowed the overall slowdown occurring in local economic growth brought about by an eroding position in our major industry, tourism.

In December a joint task force of members of the administration and the legislature of the territory submitted to the Government of the United States of America, through the Office of Territories, Department of the Interior, a petition to render financial assistance to alleviate the financial crisis in the U.S. Virgin Islands.

Fully aware that the determinant of success lies in our commitment to achieve it, the territory has taken several decisive steps to stabilize and revitalize the economy and thereby increase revenues available for essential services.

Further, to meet requirements of the fiscal year 1976 budget, significant cutbacks were made in operating expenses. These included the severance of some 346 employees from the government payroll, the suspension of government salary increments, hiring and promotion freezes, the curtailment of nonessential services, eliminating funds available for program diversification, and curtailing operating moneys for essential program execution. New capital projects have been vir-

tually eliminated with the exception of on-going repairs and completion of already commenced projects.

Our budget submission for fiscal year 1977, represents veritabily little increase over the amount spent in 1975 and anticipated for expenditure in 1976.

Discounting for inflation, the decline in expenditure represents a substantial reduction in purchasing power. Essential to a balanced budget submission for the next 2 years is successful passage of the Federal loan authorization bill. To insure a balanced budget submission by fiscal year 1979, the Government must restrict its expenditure growth to less than 5 percent annually.

This self-imposed restriction on Government outlays will combine with more intensive activity in furthering goals established by my administration to close the present reality of expenditure outstripping revenues.

Throughout this period of high unemployment, the government has been cautious in its consideration of raising property taxes and service fees, the only revenue generating area over which the territorial Government has control; for these impose regressive tax burdens on the population.

Despite this concern, however, the situation requires our recommending a \$16 million tax package to lend balance to our fiscal year 1977 budget submission.

We believe our request for a loan warrants special consideration for the following reasons:

One, we seek assistance to revitalize an economy and a deteriorating government fiscal situation brought about by factors beyond the control of the territory.

Two, our status as a U.S. territory place us in the unique position vis-a-vis, the Caribbean as being a major port of entry for immigrants seeking a betterment of living conditions. However, our insularity from the mainland does not allow for diffusing this population concentration and distributing the cost of providing vital services among neighboring areas.

Three, territorial status limits the internal controls available for manipulating income taxes and incurring debt.

[See page 21 for Governor King's prepared statement.]

Senator JOHNSTON. Governor, let me cut you off at this point. I have read your statement as has Senator Hansen, and your statement will be incorporated in full in the record.

You had a 53.5 percent enrollment increase in the last 5 years in your schools, that is really amazing. Tell me why these immigrants have come and how they get there and what they do when they get there.

Governor KING. Senator, the Government of the Virgin Islands has absolutely no jurisdiction, has absolutely no input into immigration policies as administered in the Virgin Islands. These are prepared, determined, administered by the Federal Government.

As such, we are in no position to influence, to advise, to have any input into this at all. Therefore, this is a question which properly must rest with the Federal Government.

Senator JOHNSTON. They come in to work. What do they come in for?

Governor KING. I think it started essentially in the early 1950's when the economy started to expand, when tourism started to bloom. There was a shortage of available labor within the Virgin Islands and this served to attract the people from the neighboring islands to the Virgin Islands who were seeking employment that they could not get in their respective islands.

I think the present policy may well have had its genesis at that point.

Senator JOHNSTON. What is their status now? They have not become citizens, they are still resident aliens?

Governor KING. Some have become citizens. People are becoming naturalized on a continuing basis as they become eligible for naturalization.

Senator JOHNSTON. Is the stream of people still continuing into the Virgin Islands?

Governor KING. To the best of my knowledge, this has been at a virtual standstill over the last few years.

Senator JOHNSTON. If you could write the Federal law with respect to immigration, what would you do, or, what you have us do?

Governor KING. If I could write the Federal law, I would recommend very strongly that an appraisal be made of the present economic situation in the Virgin Islands in terms of its ability to accommodate additional immigration into the territory in terms of the needs of the territory for people with special skills and special training.

I would like to have a position to provide input. I would like to have people better evaluate the situation to meet the needs peculiar to the Virgin Islands.

Heretofore we have been living under rules and regulations put up by the Federal Government based on experiences and situations within the continental United States. A large portion of which has no relationship to the situation that exists in the Virgin Islands.

Senator JOHNSTON. I very strongly believe we ought to have a special immigration policy with respect to our territories. I know Puerto Rico has had a little different problem, but still, of the same genus, still the same kind of situation they cannot control their immigration and they have too much influx at different times. The same is true of Guam. It seems we ought to have a comprehensive study to determine whether we ought to reexamine that question.

I would be in favor of giving the Virgin Islands power to control up to a certain limit, immigration into your island. I don't think any island ought to be able to open up the floodgates and say this is a place through which you can come to get to the United States.

On the other land, if you want to restrict down, the number of immigrants who can come, I think you ought to be able to. I will ask staff to work with minority staff to determine what the proper vehicle would be to undertake that kind of a study.

Maybe a resolution—of course, Interior, I think, would be the proper studying group. I would like to hear from Interior in a minute on that.

Governor KING. I think there is a bill on the House side, I think there are two bills, and I think one of the two bills does provide for the establishment of a commission to undertake essentially this kind of study.

Senator JOHNSTON. For just the Virgin Islands, or for all of the Territories?

Governor KING. If my memory serves me correctly, one is restricted to the Virgin Islands, the other would mandate a study of all the territories.

Senator JOHNSTON. We will check that out. I think it ought to be studied.

Governor KING. I have read the bill which would study the immigration situation in all the territories and my inclination is to be in favor of the bill. My only reservation is the bill, as presently written, provides for a commission to make a study, but a commission that is weighted in favor of membership from the United States.

If the balance is weighted at all, it ought to be weighted in favor of the territory.

Senator JOHNSTON. I think one of the problems is, people stateside have not really focused on the problem. I don't think there is any desire of the people stateside to flood the Virgin Islands with so many people you cannot take care of them, resulting in a 53.5 percent increase in these public schools the last 5 years, I don't think people are aware of it.

We will undertake to get the proper study done if it has not been done so far. Now, you are requesting bonds for capital improvements of \$61 million. Do you have a capital budget showing what you want to build and when?

Governor KING. We can make that a part of the record. We have some material on that.

Senator JOHNSTON. We would like a copy of that for the committee files, and if it is not too cumbersome, we will make it a part of the record.

Governor KING. I would say to the chairman, the list we present is not what we consider to be an all-inclusive list. It is a matter, there are certain dollar limits that must be set, and we have tried to identify the items. They are priority.

Senator JOHNSTON. Governor, you mentioned in your statement that approval by the legislature is protection enough. We had this kind of argument, I know, in my home State for a long time. Without reference to whether it is protection enough, would you have any serious objection to having a vote of the people?

Governor KING. Mr. Chairman, given the choice, I would prefer that section 7 be stricken from the bill. I think that section (b) provides sufficient safeguards—money would be paid to the government of the Virgin Islands in such sums as may be requested by the Governor of the Virgin Islands with the concurrence of the territorial legislature and approved by the Secretary of the Interior, and such moneys as may be appropriated shall be available until June 30, 1980.

Funds appropriated pursuant to this section shall also be available for use by the government of the Virgin Islands to permit the Virgin Islands to qualify for participation in Federal programs relating to public works and community development for which the Virgin Islands is otherwise eligible.

With the concurrence of the territorial legislature, I think it would be well to add, members of the territorial legislature are, in fact, elected by the people of the Virgin Islands every 2 years.

It is also useful to point out that members of the legislature were selected by the president of the legislature to work with the executive branch of the government of the Virgin Islands in preparation of the petition which was subsequently considered to the Federal Government for consideration.

I think it is fair to say the people of the Virgin Islands, through their elected representatives, did, in fact, participate in the decision-making process which went into this whole thing.

The other thing is to suggest the referendum is also to delay the time period when the government would have available this money which it urgently needs and needed last year to provide these necessary services.

We are at the level of services now, Mr. Chairman, which is by any standard considered unacceptably low. What we're trying to do is improve the situation. We're not asking for any thing to live beyond our means, we are asking for assistance to enable us to survive; not to get this money within the time period stated, and the time period is the first of October because the government of the Virgin Islands cannot engage in deficit spending. We have to come up with a balanced budget.

To not get the money means we have to do one of two things; get new revenues by way of new taxes, and we have already sent a tax package down for \$16 million on an already heavily taxed people, or we have to cut services below the present level means one thing, the government of the Virgin Islands would have to admit it is incompetent and incapable of providing services. There are now a number of functions being performed by the government that cannot be reduced further.

Senator JOHNSTON. What is your total operating budget?

Governor KING. The budget for the current fiscal year will wind up with about \$117 million by June 30. We estimate a budget for the next fiscal year of \$121 million.

Senator JOHNSTON. None of that is capital?

Governor KING. None of it, sir.

Senator HANSEN. Governor, I read your statement and I thought it was either your—only those projects that were in the process of construction are being continued, did you not say that?

Governor KING. That is correct.

Senator HANSEN. Wouldn't some of the \$117 million be capital construction?

Governor KING. No, sir. That is the operating budget. There is an operating budget and a capital improvement budget.

Senator JOHNSTON. What is the capital improvement budget?

Governor KING. We are only spending, for capital improvements, slightly over \$1 million, not more than \$2 million for the current fiscal year.

Senator HANSEN. Then your total budget would be around \$118 million, \$117 million is operating—

Governor KING. A little over \$118 million, let me say we are going to be spending a little over \$1 million for capital improvement seems to me is not really stating the urgency of the problem in the sense that we are faced with a situation where schools are on double sessions because of insufficient classroom space.

We are faced with a problem where hospital beds have to be closed up, where we need to expand rather than contract. We're faced with a problem, and this was unfortunately emphasized last week with a need for funding to improve the airport facilities on the island of St. Croix and St. Thomas.

What we are talking about is the need for moneys to provide a level of services so the people of the Virgin Islands could feel they are, in fact, a part of the United States, and are, in fact, deriving benefits of citizens under a free democratic society anywhere they live.

Senator HANSEN. As I understand your statement, I think you said they were barely under 50,000 residents in 1965 and in excess of 99,000 in 1975, reflecting a 100-percent increase in population. What portion of that increase would have resulted from immigration?

Governor KING. I would say a substantial number would have resulted from immigration, but we have to take into account the fact that even though at that time the numbers contributed would have been considered non-U.S. citizens, that in the interim a substantial number of these people have achieved citizenship through the immigration process.

So, while at the time of admission they were not U.S. citizens, now they are citizens.

Senator HANSEN. You make the point very well. I was recalling your observation that this is a very significant factor in the exacerbation of your problems and resulted from the laws or lack of laws beyond your control. I wonder if you could give us an indication, a percentage figure, or whatever, that would indicate the dimension of the problem in order to address the point that Senator Johnston was making.

I'm trying to be helpful. I am saying this, you say a significant proportion of the increase in the population which has resulted in this 53.5-percent increase in the school system in a 5-year period of time, results from immigration. Then I would think you might find the Congress even more receptive to an emergency situation than would otherwise be the case.

Governor KING. I don't know what the exact percentage figure would be. These figures we will try to get from Immigration.

Senator HANSEN. Would you want to hazard a guess? Would it be within 25 to 40—I'm not trying to put words in your mouth, but just any idea?

Governor KING. I would guess about half of the increase may well stem from this. I would like the record to show this is a guess.

Senator HANSEN. I appreciate that, Governor. We will not hold you to that any more than having made a guess.

[Subsequent to the hearing, the Interior Department supplied the following information:]

On May 11 the Department responded to a number of questions raised by the committee in its May 10 hearings on S. 3357, a bill to provide loan assistance to the Virgin Islands. At that time, we did not have sufficient information to answer the committee's question as to the percentage of school enrollment increase which is attributable to the influx of aliens into the U.S. Virgin Islands. There has been an increase of 53.5 percent in school enrollment since the 1970 decision in *Hosier v. Evans* which required admission of all school-aged alien children to the public schools of the Virgin Islands. The Virgin Islands Department of Education estimates that 77.4 percent of the increase is attributable to such noncitizen enrollment.

Senator JOHNSTON. Thank you very much, Governor. You have made us aware of things I think really need attention. This immigration problem is first on that list, and we appreciate very much your testimony.

[The prepared statement of Governor King follows:]

STATEMENT OF HON. CYRIL E. KING, GOVERNOR OF THE VIRGIN ISLANDS

Mr. Chairman, honorable members of the Senate committee and distinguished guests:

It is my privilege to be here today as Governor of the United States Virgin Islands to address you on a matter of extreme importance to the well-being of residents of the territory. Please accept my thanks on behalf of all Virgin Islanders for the early scheduling of hearings on this measure.

INTRODUCTION

The Government of the Virgin Islands has serious financial difficulties. The level of essential services provided in areas of health, education, and public safety, and the concurrent infrastructure development of the territory has been curtailed severely as a result of an economic recession that has reduced local government revenues. To meet the operating expenses of the government, hospital beds have been closed; civil servants furloughed; payment of legitimate obligations deferred; construction of school, hospital, and public safety facilities cancelled; and acquisition of water line expansion, road improvement and emergency equipment postponed. Over the years the necessity of borrowing from all government funds to meet the needs of the operating budget has resulted in the depletion of surplus monies in these accounts. The most critical example of this is the internal revenue matching fund. This is the source of capital improvement monies for the territory. In fiscal year 1976 less than \$1 million existed for initiating any new projects.

Over the past year, my administration has worked with the Department of the Interior and the Office of Management and Budget to clarify our financial needs. Immediate loan assistance will assist the Government of the Virgin Islands in turning around this critical situation and allow restoration of a satisfactory level of essential government service.

ECONOMIC SITUATION

The revenue shortfall that has occurred in the United States Virgin Islands represents a combination of economic decline worldwide and Federal manipulation of the income tax system, with its resulting impact on government collections due to the special operation of the internal revenue laws within the Virgin Islands.

As the members of the committee are aware, tourism is the most important contributor to the Virgin Islands gross domestic product. Over the past few years, there has occurred a precipitous decline in the amount of revenues derived from this industry.

The major attractions of the territory are its weather, its beaches, and its freeport status, but demand for tropical vacations is low as a result of the recent recession. Our freeport status was severely affected by the de-evaluation of the U.S. dollar. The prices of imported commodities and merchandise have increased over those prevailing in 1972. This has seriously eroded the competitive advantage of our tourist-related Virgin Islands businesses, especially those within the retail industry. Furthermore, recent renegotiations of international tariffs have reduced sales by commercial enterprises, capitalizing on freeport status. A competitive edge can only be maintained over major stateside markets by insuring minimum overhead and low tax burdens. The losses in tax revenues are, as a result, significant.

Our efforts to diversify our economy, have yielded some success. However, numerous factors exist to limit our capabilities in this area. Most prominent is the lack of affordable resources needed by most industries: easy access to major markets, cheap power and water, inexpensive or skilled labor. Our small island settings preclude many of these desired features, and our ties to the

U.S. wage scale places our labor market at a disadvantage vis-a-vis other Caribbean islands.

We have attempted to capitalize on certain preferred status exemptions offered by Congress over the years. However, increasingly these are being threatened by groupings on the mainland who believe these to be unfair advantage. The most recent example of this is the proposal to eliminate the Jones Act exemption on oil transport between the territory and the mainland.

IMPACT OF FEDERAL ACTION

Unilateral actions on the part of the Federal Government have also complicated our situation. The changes to the income tax rates with its liberalized exemptions, and negative income provision, have further eroded the revenue base of the local government. The provisions of the U.S. law which tie the income tax of the Virgin Islands Government to the internal revenue laws of the U.S. preclude adjusting tax assessments to compensate for reductions in revenue receipts.

It was hoped that monies due to the territory from the Federal Government could be obtained and thereby eliminate the need for a significant increase in the tax burden. The U.S. Department of Justice's decision to disallow refunding some \$46 million of gasoline taxes and \$20 million of custom dues—the annual proceeds of levies imposed on petroleum products imported into the United States from the Virgin Islands—has set back the time period in which these monies might be realized. However, through the kind intervention of Senator Henry Jackson, legislation is being considered by Congress to return these Virgin Islands' monies to the territory for the use of its residents.

The economic condition is exacerbated by the population growth and the resulting demand for services that the territory has experienced within the past ten years. In 1965 the population of the three major islands of the Virgin Islands was estimated at some 49,742. In 1975 this figure had increased to 99,981. This represents a 100% increase within a ten-year period. The negative impact of rapid population growth on government services has been aggravated and intensified by two recent legal developments. Public Law 91-225, passed by Congress in 1969 admitted spouses and children of non-immigrant alien workers into the U.S. Virgin Islands and, a Federal district court ruling (*Hosier et. al.*, 8 V.I. 27, District Court of the Virgin Islands) admitted all non-citizen school age children legally residing in the Virgin Islands to public school.

The result is that an already strained public school system experienced a 58.3% enrollment increase in the five years since the court ruling. In addition, this substantial population growth during the latter half of the sixties—a period characterized by stable economic growth—has translated into present unemployment levels exceeding 10% during the current period of fiscal recession.

TERRITORIAL RESPONSE

When I took office a little more than a year ago, the fiscal crisis was already upon the territory. The immediate causes were grossly over-inflated revenue projections and an economic environment buffeted by the worldwide recession.

These problems overshadowed the overall slowdown occurring in local economic growth brought about by an eroding position in our major industry—tourism.

In December a joint task force of members of the administration and the legislature of the territory submitted to the Government of the United States of America, through the Office of Territories, Department of the Interior, a petition to render financial assistance to alleviate the financial crisis in the United States Virgin Islands.

Fully aware that the determinant of success lies in our commitment to achieve it, the territory has taken several decisive steps to stabilize and revitalize the economy and thereby increase revenues available for essential services.

Further, to meet requirements of the fiscal year 1976 budget significant cut-backs were made in operating expenses. These included the severance of some 346 employees from the government payroll, the suspension of government salary increments, hiring and promotion freezes, the curtailment of non-essential services, eliminating funds available for program diversification, and curtailing operating monies for essential program execution. New capital projects have been virtually eliminated with the exception of on-going repairs and completion of already commenced projects.

Our budget submission for fiscal year 1977 represents veritabily little increase over the amount spent in 1975, and anticipated for expenditure in 1976. Discounting for inflation, the decline in expenditure represents a substantial reduction in purchasing power. Essential to a balanced budget submission for the next two years is successful passage of the Federal loan authorization bill. To insure a balanced budget submission by fiscal year 1979, the government must restrict its expenditure growth to less than 5% annually.

This self-imposed restriction on government outlays will combine with more intensive activity in furthering goals established by my administration to close the present reality of expenditure outstripping revenues. This I have termed operation recovery and diversification.

Throughout this period of high unemployment the government has been cautious in its consideration of raising property taxes and service fees—the only revenue generating area over which the territorial government has control—for these impose regressive tax burdens on the population. Despite this concern, however, the situation requires our recommending a sixteen million dollar tax package to lend balance to our fiscal year 1977 budget submission.

JUSTIFICATION FOR LOAN AUTHORIZATION

We believe our request for a loan warrants special consideration for the following reasons:

1. We seek assistance to revitalize an economy and a deteriorating government fiscal situation brought about by factors beyond the control of the territory.

2. Our status as a U.S. territory places us in the unique position vis-a-vis the Caribbean as being a major port of entry for immigrants seeking a betterment of living conditions. However, our insularity from the mainland does not allow for diffusing this population concentration and distributing the cost of providing vital services among neighboring areas.

3. Territorial status limits the internal controls available for manipulating income taxes and incurring debt.

4. The territory will be able to repay the loan. The Office of Management and Budget supports us in this belief. The expiration of certain tax exemptions should afford us by 1982 additional revenues estimated to be in excess of \$100 million annually.

The Federal loan authorization bill, as submitted to the Congress of the United States by the Department of the Interior with the Sanction of the Office of Management and Budget, requests loans of \$15 million for operating expenses and \$61 million for capital improvements. These monies will be repaid over a ten-year period starting in 1982, at an interest rate to be calculated in accordance with established procedures of the Treasury of the United States. It is the same sense of pride in our many past accomplishments as a people that allows us to approach this loan arrangement with the Federal Government, confident of our future capability to repay it.

The submitted bill has as its end the enabling of the Government of the Virgin Islands to balance expenses and revenues for the fiscal years 1977 and 1978 and to allow a return to a balanced budget submission without outside assistance by fiscal year 1979.

An immediate infusion of capital monies into the territorial economy is intended to significantly stimulate over-all growth. Growth will result from increased expenditures in the construction of essential projects, particularly in the areas of health and education facilities and infrastructure development, which in turn will stimulate local consumption in various sectors of the economy. The tax measures proposed for balancing revenues and expenditures in 1977 will combine with a restriction of Government program expansion to permit balancing revenues and expenditures at \$129 million by 1979. We are confident that this is achievable as the Government is the major purchaser of services, particularly in the vital area of construction in the islands.

Also requested is approval to allow imposition of a tax surcharge thereby giving the legislature the flexibility to respond to subsequent changes of the federal income tax laws.

Offered the preference between bills S-3357 and S-3327 we prefer the latter. This measure introduced by Senator Metcalf for Senators Jackson and Fannin, excludes the provisions for initiating a referendum prior to receiving any portion of the loan.

Section 3B of S-3327 provides that monies authorized to carry out the provisions of this bill can only be paid to the Government of the Virgin Islands as requested by the Governor of the Virgin Islands "with the concurrence of the territorial legislature." The referendum provision, therefore, affords no added protection to the people of the Virgin Islands, but serves to delay the government's ability to utilize these funds.

CONCLUSION

In concluding, I would like to respectfully request that members of this committee lend support to efforts to enact this legislation and thereby afford citizens of these United States, separated from the continent by some 1,700 miles, services and facilities which the Federal Government has made possible for other citizens of this great country.

To fail to enact this piece of legislation is to force a further entrenchment and termination of Virgin Islands Government services with the resulting loss in employment. Our efforts to restore economic stability will be seriously impaired and the impact on the society, as well as upon the image of the United States in the Caribbean, will perforce be severe.

I pledge the dedication of my administration to continue working towards improvement in the area of fiscal responsibility; to take such steps as required to resolve our overall economic problem through a program stressing economic recovery, diversification and fiscal responsibility. Those of us from the territory know that this bill is not in itself a solution to our difficulties. It does, however, afford us the opportunity to start working towards rectifying existing problems and insuring a better future for the residents of our islands.

Senator JOHNSTON. Our next and final witness will be Emmett Rice, Deputy Director from the Department of the Interior.

STATEMENT OF EMMETT RICE, ACTING DIRECTOR OF TERRITORIAL AFFAIRS, DEPARTMENT OF THE INTERIOR; ACCOMPANIED BY STEPHEN SANDER, STAFF ASSISTANT

Mr. RICE. We have already submitted a statement for the record, and I would like to make a few comments.

First and foremost, I would like to apologize for any delay there might have been by the administration in transmitting this proposal to the Congress. We certainly recognize Congress is a coequal branch of Government, at least be advised we have done our best to work this proposal out within the administration, and we have tried to get the matter to the Hill as expeditiously as possible. Unfortunately, some of the information did not come in in sufficiently, timely fashion.

I would also respectfully submit that copies of our proposal were sent to the President of the Senate and to the Interior Committee simultaneously on April 7. On that date, Mr. Beirne of your staff was notified orally of the notice, and several weeks prior to that, Mr. Beirne had called our office and asked what funds would be necessary for funding for fiscal year 1977, and he was at that time informed of the possibility we would be requesting funds for the Virgin Islands.

[The prepared statement of Mr. Rice follows:]

STATEMENT OF EMMETT M. RICE, ACTING DIRECTOR OF TERRITORIAL AFFAIRS, DEPARTMENT OF THE INTERIOR

Mr. Chairman, I appreciate the opportunity to appear before the Committee today to testify on S. 3357, a bill that would authorize the Virgin Islands Legislature to levy a surtax and also authorize loan funds for the Government of the Virgin Islands.

As you know, the first six sections of the bill were proposed by the Administration, and we strongly support those provisions and urge that they be enacted.

At present there is a fiscal crisis confronting the territorial Government of the Virgin Islands. This crisis is due to the state of the economy and government revenue collection capability. Tourism—the largest industry and major contributor to the gross domestic product of the Virgin Islands—has declined over the past three years. This decline was caused by the worldwide recession, local disturbances, and the reduced attraction of the islands' freeport status. The latter was the result of the devaluation of the U.S. dollar and the lowering of tariff barriers on the mainland United States. The decline in tourism precipitated the reduction of public revenues from this industry.

In addition to this revenue decline, the Tax Reduction Act of 1975 with its rebate provisions, negative income tax, liberalized investment credits, and other tax reduction features, further reduced the revenues available to the Virgin Islands Government.

The purpose of the Tax Reduction Acts was to stimulate the economy. While this was achieved in the continental United States, the Acts had the opposite result in the Virgin Islands.

In practice, under the Tax Reduction Acts, people would have more money to spend, which would improve the demand for goods and services. This would have a multiplier effect on the economy, and thus it would improve. Such was true in the United States. However, most of the goods and services in the Virgin Islands come from the continental United States. The new money in the Virgin Islands quickly went to the mainland without improving the Virgin Islands economy. Estimated losses of Virgin Islands Government revenues as a result of these Acts approximate \$15 million.

The loss of government revenues meant a corresponding reduction in expenditures. Since the taxing authority and public indebtedness of the Virgin Islands is, far more restricted than that of the U.S. Government or many States, the Virgin Islands cannot compensate for the loss of revenues.

At the beginning of fiscal year 1976 the revenues projected for the Government of the Virgin Islands exceeded \$132 million. Proposed expenditures for government operating costs were equal to that amount. That revenue amount included \$20 million in anticipated receipts from custom duties on petroleum products imported into the United States from the Virgin Islands. However, the Department of Justice has ruled that there is no legal authority in the U.S. to make these payments, and thus, they are not available. Actual receipts for the first half of fiscal year 1976 suggest maximum receipts of \$92.5 million from all taxes, fees and fines, including moneys collected from hospital operations. Executive action such as reducing expenditures and increasing revenues yielded a balanced budget of \$117.1 million.

This included the transfer into the operating budget of capital improvement funds in excess of \$25 million, a severe curtailing of government services, and a personnel reduction of 346 employees. The government is the primary employer in the Virgin Islands and the rate of unemployment prior to the government layoff already exceeded 9% of the work force.

In the areas of health and education these reductions have been most pronounced. The reductions in health personnel required reducing the number of hospital beds and limited the service capability of the Virgin Islands' two hospitals.

The schools are understaffed and over crowded. In 1970 the school system admitted all non-citizen (alien) school-age children legally residing in the Virgin Islands. The enrollment increase since then has been 58.3%, with a serious impact on education services.

To meet its service responsibilities to its citizens, the Government of the Virgin Islands has, from 1971 through 1975, deferred \$31 million worth of capital improvement projects to make these moneys available for operating expenses. Without financial relief, an additional \$30 million in capital projects will have to be deferred in fiscal years 1976 and 1977. This is a total of \$61 million for the period fiscal years 1971 through 1977.

The Government of the Virgin Islands needs legislation and Federal assistance through loans to stimulate the economy. Such assistance will allow the territory to balance the operating budget at an acceptable level of services by fiscal year 1979. S. 3357 would deal with the effects of the Tax Reduction Acts and the deferred improvement projects.

Section 1 would amend the Act of July 14, 1921, to authorize the Government of the Virgin Islands to levy a surtax, not to exceed 10%, on the future income taxes payable to the Government of the Virgin Islands. The 1921 Act provides

that the income tax laws in force in the United States shall be likewise in force in the U.S. Virgin Islands, except that the proceeds of Virgin Islands taxes shall be paid into the Virgin Islands Treasury. This amendment would enable the Government of the Virgin Islands to respond to changes in the income tax laws of the United States. Along with the present estimated \$15 million loss in revenues, the Virgin Islands expects to lose \$5 million annually in future revenues under the Tax Reduction Acts.

Section 2 would authorize loans of up to \$15 million to supplement the operations budgets of the Government of the Virgin Islands for their fiscal years 1977 and 1978. Their operating expenditures for fiscal year 1975 amounted to \$117 million; fiscal year 1976 expenditures are projected at \$117.1 million. The Government of the Virgin Islands has proposed an austerity budget of \$118.6 million for fiscal year 1977 but estimates revenues at only \$110.0 million. There is a shortfall of \$8.5 million. Given the effects of inflation and past cuts in expenditures, government services are already at unacceptably low levels. A loan of \$15 million would allow the balancing of local 1977 and 1978 budgets at acceptable levels of services. These loans for operations taken together with the economic recovery stimulated by the capital improvement program loans proposed in section 3 would result in increased revenue collections by the government. It would then be capable of balancing its fiscal year 1979 budget without further assistance.

Section 3 would authorize \$61 million in loans to bring the Virgin Islands long-delayed capital improvement program up to date. How quickly these funds are requested for appropriation will depend upon review of proposals by the Government of the Virgin Islands, however the legislation would allow the funding to be spread out over five years. The Virgin Islands cannot borrow for non-revenue producing purposes under the Revised Organic Act of the Virgin Islands. Thus, if the capital improvement program is to be implemented at this time, the Virgin Islands will need a Federal loan.

Sections 4 through 6 provide for the conditions of repayment of the \$76 million loans.

Section 7 of the bill provides that before the Legislature of the Virgin Islands concurs in any request for a proposed loan by the Governor under the bill, it may initiate a referendum vote to approve or disapprove: The amount of the loan; any item of expenditure for which the loan is requested, and the aggregate amount of the loans requested by the Governor for any fiscal year. Section 3 of the bill (which authorizes \$61 million in loans for the Virgin Islands capital improvement program) requires that the Governor of the Virgin Islands must have the concurrence of the Legislature in requesting such loans. We believe that section 7 is an unnecessary extension of the concurrence process already provided for in section 3. We thus recommend that section 7 be deleted.

This concludes my prepared testimony. I will be pleased to respond to any questions that you might have.

Mr. RICE. Again, I hope that in the future we can be more timely in making these requests. I would like to point out and thoroughly endorse the chairman's statement, in many instances I think we do not focus on the effect of Federal laws and Federal procedures to our territorial possessions.

Senator HANSEN. Would you repeat that?

Mr. RICE. I think in many instances we do not properly focus upon the adverse effects that many of our Federal procedures, Federal decisions, and laws may have on our territories as the Chair has pointed out. I think the immigration situation is a very good example of that.

The Tax Reform Act is another very good example of an adverse effect upon a territory that was, perhaps, not thoroughly considered at the time it was passed and implemented.

I would also like to point out, territories are different from States, due to the fact that territories do not always have control over their own affairs, such as occurs in the areas of immigration and taxation. The impact is so great that perhaps we should seriously consider treating them in a very unique way.

This, I think, would relate itself to the chairman's problem with a loan for operating expenses in the Virgin Islands. I would estimate—

I have no exact figures at this point in time—but I would estimate a great deal of the current deficit has been brought about by the Tax Reform Act.

I would like to respectfully point out and submit the Virgin Islands is here with dignity, not with hat-in-hand asking for grants, but simply asking for a loan from the Federal Government to help solve some of the problems that have been created, perhaps, by Federal action.

Senator JOHNSTON. Don't you think it would be better to let them go into the capital markets themselves rather than borrow from the United States? To borrow from us creates this kind of situation that x-years hence, we will be back to review, and if they're behind in the payments, we're not going to sue them, they don't lose anything by not paying us back, wouldn't it be much better to give them the right to go into the capital markets themselves?

Mr. RICE. I'm mindful of the Chair's concern, but I have some concern of my own. No. 1 would be the time lag that would be occasioned; No. 2 would be the interest rate that might be obtainable by the Virgin Islands going out into the capital market—

Senator JOHNSTON. If you gave them full faith and credit, wouldn't they get the same interest rate they would under this bill?

Mr. RICE. I think the interest rate would be lower from the Federal Government than it would be in the capital market.

Senator JOHNSTON. Interest on the loan would equal average yield of outstanding marketable applications of the United States of comparable maturity dates.

Now, how would a full faith and credit bond have any interest rate that would be above the average yield of outstanding marketable applications? Full faith and credit is full faith and credit.

Mr. RICE. It would be a guaranteed application of the Federal Government, but I still think, depending upon other terms, the private sector might not be willing to buy these bonds at that particular rate.

It would have to do with time of repayment, whatever the particular bond market was at the time. We have the same problem with Guam financing.

There is also the question of interest on idle money. They are not fully able to implement all of these capital improvements and get them started at the same time. They would not be paying interest on the funds that would be idle for a period of time.

Senator JOHNSTON. They would not have to sell all of the bonds all at once.

Mr. RICE. They could sell them in series, yes, they could do that.

Senator JOHNSTON. What they do is put them to the extent they have idle funds, they put them into a fund to get interest.

Mr. RICE. There was another large problem of the concept of immediate repayment. The Virgin Islands won't be ready to begin repayment of these until 1982. I'm not altogether certain a bond market would permit deferred payment until 1982, which for salability, might require some type of payment, if only interest.

Senator JOHNSTON. I think you can structure your bonds for the bond market in any way you want to. It just seems to me it puts a discipline on the financial structure of the Virgin Islands to go out into the bond market, that they would not have borrowing from the U.S. Government.

I, frankly, cannot bring myself to feel it is a good idea to borrow for current operating expenses. I don't know any State or municipal subdivision that borrows for current operating expenses.

Senator HANSEN. I'll add a footnote to that without getting into trouble.

Senator JOHNSTON. Yes; without getting into trouble. To the extent there is an emergency situation, I think the administration ought to come in forthrightly and say, let's make a grant. But, to borrow money is to postpone misery, it seems to me.

Mr. RICE. I think, Senator, the Virgin Islands certainly has a financial forecast and outlook with increased taxation revenues, that it has no need to ask for a grant, it can repay this indebtedness and is simply asking for a loan to tide it over during this period of recession.

Senator JOHNSTON. In 1982, this property comes on the tax roles.

Mr. RICE. And the Hess Oil situation, some of the exemptions afforded to Hess, will not be afforded in 1982.

Senator JOHNSTON. How much revenue will that be?

Mr. RICE. Up to \$200 million, I beg your pardon, \$100 million.

Senator JOHNSTON. \$100 million a year?

Mr. RICE. Yes, sir. Up to that figure. The entire \$100 million may not materialize, but up to that amount is my understanding.

Senator JOHNSTON. That is for ad valorem taxes?

Mr. RICE. This for the tax exemptions now available to Hess Oil from the Virgin Islands. I will defer to the Governor on that, if I might.

Governor KING. The estimate on that, Mr. Chairman, is approximately \$100 million a year, assuming a level of production as they are now enjoying, and this would be essentially custom dues, gross receipts, and property taxes.

Senator JOHNSTON. Is this assuming you win your lawsuit, or that Congress passes that legislation? What is the source of the \$100 million?

Governor KING. The bill to be passed by the Congress, I doubt very much, would have any bearing on that. These are exemptions which were extended to Hess as an inducement to begin operation in the Virgin Islands and these automatically will expire in 1981.

Senator JOHNSTON. I know that, but where does the \$100 million come from, income tax, ad valorem tax?

Governor KING. The most part would come from customs dues, that is, taxes imposed on goods produced in the Virgin Islands and shipped to the United States.

Senator JOHNSTON. In either, to be able to impose those, you have to win your lawsuit or get this legislation passed, is that correct?

Governor KING. No, sir.

Senator JOHNSTON. What customs duties—that bill involves gasoline?

Governor KING. There is another point, Mr. Chairman. Once this oil comes in to the Virgin Islands, there is a 6 percent tax imposed. This is the expiration of the tax exempt period—would result to the Treasury of the Virgin Islands, by the use of the Virgin Islands Government, and this would be the bulk of it.

Senator JOHNSTON. What I would like to get for the committee to put in the record is more or less a pro forma on the \$100 million.

Where is it going to come from? How do you calculate it, all of those things? What basis for assumptions are there?

For example, you would assume a level of production that is similar to what it is right now, or assume you will be making fuel oil instead of gasoline. Whatever your assumptions are, we would like to have that, and when do you expect this revenue to come onstream?

Governor KING. Mr. Chairman, may I impose on your time by saying the Government of the Virgin Islands may not borrow under existing law for the operating budget. We can go to the market to borrow for capital improvements, but even under that, there is the limitation that we cannot borrow more than 10 percent of the total property assessed value of the Virgin Islands, but that is only for capital improvement.

We cannot borrow under existing organic law for the operating budget of the Virgin Islands.

Senator JOHNSTON. That is a usual provision that is in almost every State constitution, but borrowing is not committed for operating expenses. The 10 percent limitation that would be changed by this legislation, obviously, we are not going to give you authority to borrow and then have another provision of Federal law that would prevent that, so we could certainly take care of that.

Governor KING. May I also point out the time factor. Assuming it is possible for us to go to the bond market and achieve some measure of success, this is, in my opinion, questionable at the moment. There is a time factor which, for us, is crucial.

Senator JOHNSTON. I understand that, but we didn't get this legislation until April 7. With the press of legislation we have to consider in this committee, it is an election year, we just do not have time to get it out by mid-June or whatever it is. This is very far-reaching legislation, to talk about a grant for operating expenses or a loan for operating expenses.

I don't know if the committee feels inclined to go along with that. I would have serious doubt about it. I don't know how we could do it in the next 30 days.

Governor KING. The tax rebate provided taxpayers in the Virgin Islands would have been refunded by the Federal Government a number of dollars from their Federal income taxes. This meant a shot in the arm in the respective States from the Federal Treasury.

In the case of the Virgin Islands, to which this also applied, it worked in the reverse in the sense that the Government of the Virgin Islands had to dip into an almost already bare treasury to refund this money to the people of the Virgin Islands and thereby give up moneys that it needed—that it had planned on using in its operating budget.

Senator JOHNSTON. That money came from your treasury for the refunding?

Governor KING. Yes. In the case of the Federal Government, it was the other way around.

Senator JOHNSTON. Can you give us details on that?

Governor KING. We will be happy to make that available to you. This is how we arrived at the \$15 million figure.

Senator HANSEN. I'm on the Finance Committee, Governor. Are you talking about the individual increase in the exemption that was authorized? What sort of refund are you talking about?

Governor KING. We were talking about a rebate which went into effect last year which refunded to taxpayers x percentage of the amount of income tax they paid.

Senator HANSEN. In the Virgin Islands, the government of the Virgin Islands was charged or assessed, or had to rebate to the Federal Treasury that proportion of moneys that was given to all Americans, that went to people in the Virgin Islands. Is this the amount you are talking about?

Governor KING. We rebated directly to the taxpayer.

Senator HANSEN. In the Virgin Islands?

Mr. RICE. Senator, in the Virgin Islands, the Virgin Islands keeps all taxes produced in the Virgin Islands.

Senator HANSEN. As we increased the exemption and put this rebate through, then you had to pay for the amount that went to the people of the Virgin Islands?

Mr. RICE. Yes, sir.

Senator HANSEN. That is the part of the Tax Reform Act that was so burdensome to you?

Mr. RICE. It is the same sense as having to dig into State coffers and have the State remit those to State citizens.

Senator HANSEN. This is a unique situation contrasting your situation with the 50 States. It is unique because this income tax payment, the 50 States, does not go to State government directly, it goes into the Federal Treasury, and maybe a portion of that later.

But, you have a unique problem because you had to repay whatever was mandated to be paid by virtue of the Tax Reform Act, if I understand.

Mr. RICE. Yes.

Governor KING. We also continue to lose money because the base of taxation has been reduced, and again, these are factors which we have no control over.

Senator JOHNSTON. It is very important that you get that information to us. It is one fact that could throw a little different light on this for operating expenses. We can have a loan for operating expenses for the recessions, but where the Federal Government comes along and takes some action which depletes your treasury as it did, I think that is something that may justify different treatment.

If you will get that to us, and if Interior will so certify your figures as well, I think that would be very helpful.

[Subsequent to the hearing, the Interior Department supplied the following:]



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAY 11 1976

Dear Mr. Chairman:

Yesterday, in hearings on S. 3357, a bill to provide loan assistance to the Virgin Islands, the Committee raised questions and indicated concern with regard to several issues. The following are answers to those questions and concerns.

1. The Committee indicated that it might favor the Virgin Islands entering the private bond market, with a United States guarantee for its needed funds, rather than securing its loans directly from the Federal Government. The major concern with this alternative is that the Virgin Islands cannot afford to repay either principal or interest until 1982. Our belief is that the direct Federal loan approach is the most expeditious means for getting the needed funds to the territory. We are confident of the Virgin Islands ability to repay in light of the imminent expiration of a number of local tax exemptions. In any event, the Internal Revenue Matching Fund -- moneys owing the Government of the Virgin Islands by the Federal Government -- would be used to amortize the debt.

2. The Committee was concerned about the Virgin Islands Government borrowing funds for operating purposes. As outlined in testimony the Governor has instituted a number of cost cutting measures and recommended new tax legislation to increase revenues. He has indicated that essential services have been severely reduced. To cut cost further would be to provide such services at an unacceptable level as evaluated by nearly any standard. We do not foresee such a loan as a bad precedent leading to ever increasing Government of the Virgin Islands borrowing for operational purposes. On the contrary, it is projected that of the \$15 million loan authorization for operations approximately \$10 million would be used in fiscal year 1977 with a decrease to approximately \$5 million in fiscal year 1978. By 1979, if S. 3357 is enacted and funded as planned, it is anticipated that the Government of the Virgin Islands will have a balanced operations budget.

3. The Committee requested information on the effects of the Tax Reduction Act of 1975 and its extension. As the Committee knows,



the United States tax obligation of Virgin Islands residents is satisfied when such residents pay their income taxes into the local treasury as provided by Federal law. When the Tax Reduction Act was enacted the loss of tax revenue came directly from the Virgin Islands treasury rather than from the Federal treasury as occurred with regard to the 50 States. The following tax figures were supplied by the Government of the Virgin Islands. It is estimated that \$15 million of the decrease in tax revenues is attributable to the Tax Reduction Act of 1975 and its extension.

	1975	1976 est.	1977 est.
Individual	52,474,177	43,206,849	47,000,000
Corporate	14,990,943	10,609,489	9,900,000
Total	67,465,120	53,816,338	56,900,000
Rebates	-0-	(2,500,000)	
Refunds	(5,065,465)	(9,000,000)	(8,000,000)
Adjustment	62,399,655	41,816,338	48,900,000

4. The Committee requested information on the Hess Oil tax exemption which will expire in 1981. The following data shows the amount of tax exemption for fiscal years 1973 and 1974 together with the amount of production on which the exemption is based. In estimating that the Government of the Virgin Islands will receive up to \$100 million in tax revenues when the exemption expires in 1981, we are assuming an amount of production equivalent to that of 1973 and 1974.

Exemption moneys returned from the Government of the Virgin Islands to Hess Oil:

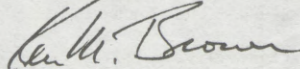
	1974	1973
Income tax	11.4 Mil.	16.5 Mil.
Gross receipts tax	41.4 Mil.	53.1 Mil.
Customs duties	45.6 Mil.	30.8 Mil.
Property *	N/A	N/A
Total	98.4 Mil.	100.4 Mil.
Production in barrels per day:		
Product sales/Day	591,000	615,000
Refinery runs/Day	530,000	492,000

* Insufficient information precludes estimation

5. The Committee requested a list of the capital improvement projects and operations program on which the loan moneys would be expended. Please find attached the Virgin Islands proposed list of capital improvement projects totaling \$61 million and its proposal for fiscal year 1977 operations funding in the amount of \$10 million.

Should the Committee have additional questions, we will be glad to provide the answers.

Sincerely yours,


Legislative Counsel

Hon. Henry M. Jackson
Chairman, Committee on Interior
and Insular Affairs
United States Senate
Washington, D.C. 20510

Enclosure

FY 1977 Funding Request

1. Operations, Loans. In order to balance the FY 1977 Virgin Islands operations budget \$10 million of the \$15 million authorized is requested. This will eliminate the forecasted FY 1977 deficit and will provide a balanced budget as required by Virgin Islands law, thus allowing the Virgin Islands Government to provide at an already reduced level the necessary government services for the people of the Virgin Islands.

The following operational areas of the Government of the Virgin Islands will be funded under this request:

a) Education.....	\$2,981,900
b) Health.....	4,988,700
c) Social Services.....	1,277,100
d) Public Works.....	752,300
Total Operations	<u>\$10,000,000</u>

a) <u>Education.....</u>	<u>\$2,981,900</u>
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<u>Activity</u>	<u>Amount</u>
(1) Special Education.....	\$1,262,900
(2) Pupil Personnel Services.....	309,400
(3) School Maintenance.....	927,600
(4) Pre-Vocational Institutional.....	482,000
(1) <u>Special Education.....</u>	<u>\$1,262,900</u>

Program Description

Territory-wide, pre-school, elementary, and secondary services to severely handicapped children. Through the implementation of pre and post testing, maintain data on education needs, to enable teachers and diagnostic clinic staff to implement educational programs to meet the needs of approximately 300 handicapped children. Works with the Departments of Health and Social Services to improve handicapped child research methods. Funding for this program would provide for 121 positions and related expenses.

(2) <u>Pupil Personnel Services.....</u>	<u>\$309,400</u>
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Program Description

Provide leadership in coordinating programs of special services, guidance, psychological assistance, school health, school social work--will facilitate

the growth and development of pupils' grades k through 12 in the two school districts. Funding for this program will provide for four positions in order to design comprehensive programs addressing identified student needs in the above areas. Insure responsiveness on the part of Departmental personnel through training. Provide information and insure subscription to outside services that address needs of the students

(3) School Maintenance..... \$927,600

Program Description

Territory-wide maintenance program to protect the large capital investment in school plants by improving by detailed planning the comprehensive preventative program thereby minimizing emergency repairs. Maintain approximately 155 separate buildings at 34 different sites. Improve the Summer Work Programs. Funding would provide for 72 positions to make a physical inventory of all buildings and equipment to assess maintenance needs, allocate resources to address these needs on a priority basis. Design and implement a record-keeping system designed to trigger inspection at periodic intervals; provide training for maintenance personnel, and to include more children in the Summer Work Program.

(4) Pre-Vocational Institutional Level..... \$482,000

Program Description

Territory-wide school program benefiting students at the elementary and junior high levels. Provides a cluster of courses that stimulate interest in and create sensitivity to work ethic; expand experimental "career awareness" to elementary grades; enhance the students knowledge of machines, tools, devices, and techniques through "hands on" experiences in pre-vocational courses.

Funding for this program will provide for 35 positions to operationalize a core course affording exposure to various skills; expose 600 elementary school children to an innovative career development program; afford homogeneous and heterogeneous student groups participation in core courses in varied institutions.

b) Health..... \$4,988,700

Activity

Amount

(1) Diagnostic and Treatment Services..... \$898,400
 (2) In-patient Services..... 4,090,300
 (1) Diagnostic and Treatment Service..... \$898,400

Program Description

Knud-Hansen Memorial Hospital, St. Thomas.

Provide a wide range of diagnostic and therapeutic services requisite to good medical care within an institute and activity. Plan for additionally needed services; to expand hemodialysis services. Increase diagnostic X-ray services in the area of tomograms and mamograms.

Funding for this program would provide for 67 positions, and to relocate hemodialysis unit to second floor thereby expanding the area from a capacity of six to twelve beds; plan and develop staffing space and facilities for a nuclear medical department as required by joint commission on Accreditation of Hospitals; replace obsolete diagnostic X-ray unit thereby reducing number of patients traveling off-Island for this service.

(2) In-Patient Services..... \$4,090,300

Program Description

For entire Virgin Islands Community, provide a high standard of medical and nursing services in the following areas: Medical, surgical, pediatrics, obstetrics, and psychiatry. Provide in-patient care on a 24-hour basis; provide staff with necessary material and equipment in order to render high quality care; coordinate in-patient services by medical and nursing staff with those rendered by the paramedical personnel. Funding for this program will provide for 389 positions to ensure that standards of in-patient care practiced are not below those of nationally recognized licensing and accrediting bodies. The main vehicle of accomplishment will be through the recruitment of sufficient physicians in the major specialties and assignment of qualified professional nurses in quantities adequate to staff the special care areas. Assign qualified professional nurses to provide 24-hour supervision and care of patients; conduct evaluation of quality and quantity of nursing care through the use of Nursing Audit Committee and Utilization Review Committee.

c) Social Services..... \$1,277,100

<u>Activity</u>	<u>Amount</u>
(1) Day Care.....	\$518,400
(2) Foster Care.....	516,700
(3) Youth Commission.....	242,000
(1) <u>Day Care</u>	<u>\$518,400</u>

Program Description

To operate the Day Care Program in the Virgin Islands. To provide coordination and related services to both the government owned and privately operated centers. Funding for this program will provide for 83 positions to incorporate a licensing unit which will be responsible for screening and evaluation of applicants for day care licenses. Maintain a high quality of substitute care for 290 children in 8 government operated day care centers and 12 licensed centers.

(2) Foster Care..... \$516,700

Program Description

To operate the Foster Care Program which involves temporary substitute care for children. Funding for this program will provide for ten positions. The unit will purchase care from the Queen Louise Home for Children for 33 youngsters; purchase group care for ten predelinquent boys in St. John; provide Foster Care for the elderly. Develop and implement a "Group Home Model" which is family style settings for ten or twelve youngsters funded by a special Law Enforcement Grant. The "Group Home Model" will replace the Insular Training School Program.

(3) Youth Commission (Social Services)..... \$242,000

Program Description

Develop and provide support services for nine youth groups by utilizing the "Social Goal Model" approach. Bring youth population in contact with available services, such as health, education, employment, and job training. Expand existing Inter-neighborhood Recreation Program by adding new competitive dimensions. Funding for this program will provide for eight positions to engage youth in "Social Goal Model" aimed at encouraging youth enrollment in activities directed towards development and fostering their involvement in the solution of neighborhood problems. Select from a target population of 250 youths community workers who will become advocates in the development of nine neighborhood youth groups throughout the Virgin Islands.

d) Public Works..... \$752,300

<u>Activity</u>	<u>Amount</u>
(1) <u>Waste Water System</u>	\$752,300
(1) <u>Waste Water System</u>	\$752,300

Program Description

Upgrade main treatment plant; maintenance of sub-mains and trunk sewers. Funding for this program will provide for 66 positions. Compressors, motors, pumps, chlorinators, and electrical control panels will be purchased and installed to restore all plants to a satisfactory working level. Maintenance of sub-mains and trunk sewers will involve periodic flushing and removal of debris.

The following is a list of Government of the Virgin Islands proposed capital improvement projects which should be funded out of the \$61 million loan authorization proposed by the Department of the Interior on April 7, 1976 and embodied in S. 3357, S. 3327, H.R. 13359 and H.R. 13360.

I. Education Capital Projects	Total dollars 12.3 million
A. New school construction Construction of school facilities to reduce the double session incidence throughout the territory.	3.0 million
B. Repair and renovation of existing schools Upgrading laboratory and adding gymnasium facilities, improving kitchen and lunch rooms, improving security and repairing damages at schools on both islands	8.7 million
C. Renovations at the College of the Virgin Islands Improving classroom and office facilities in old Army buildings, improving ventilation in laboratories and dormitories.	.6 million
II. Health Capital Projects	2.7 million
Renovations and construction of minor additions to the existing health facilities on St. Thomas and St. Croix to allow maintaining accreditation and afford compliance to occupational safety and health regulations. Construction of expanded clinic facilities for St. John.	
III. Public Works Capital Projects	34.8 million
A. Potable water storage Add 200 million gallons to existing storage, giving one month of stored capacity, rather than 10 day maximum capacity, on both islands.	12.3 million
B. Water main from central St. Croix to Christiansted	3.0 million

C.	Distribution system, Tutu, St. Thomas Construction of feeder lines to new 24 inches main bringing potable water system to residents of east end of St. Thomas.	1.5 million
D.	Distribution system, Central St. Croix Construction of feeder system for communities in center of island now using cisterns or trucked water.	1.0 million
E.	Improve existing roads Improve grades, surface and drainage for two-thirds of the roads in the Virgin Islands	12.5 million
F.	Storm drainage improvements Rebuild existing storm drainage and add new drainage in St. Croix to increase ability to cope with tropical storm run-off.	2.5 million
G.	Repairs and improvements to Government Buildings designed to extend the life and serviceability of existing structures presently in use as offices.	2.0 million
IV.	Public Safety Capital Projects	8.6 million
A.	Criminal justice complex Construction of a new facility in St. Thomas combining the Departments of Law, Public Safety, and the Courts	7.4 million
B.	Expansion of adult correction facility Increase number of cells and expand common areas at Golden Grove Correctional Facility	1.0 million
C.	Motor vehicle repair facility Construction of enclosed garage and workshop in St. Croix motor pool	.2 million

V. Social Welfare Capital Projects	2.6 million
A. Nursing care building Build a nursing care wing on the Herbert Grigg Home, to provide the only certified nursing care facility in the Virgin Islands	1.0 million
B. Reconstruction of Corneiro Home Completely rebuild abandoned facility to provide housing, day care and recreational facilities for low and moderate income elderly in St. Thomas	1.0 million
C. Renovation of existing facilities for elderly Improve kitchen facilities and common areas, and remove architectural barriers in elderly housing facilities in St. Thomas and St. Croix	.1 million
D. Renovation of Youth care facilities Moving youth care facilities from downtown Charlotte Amalie to government-owned facilities at Calabash Boom, St. John. Renovation of buidings there.	.5 million
TOTAL ALL CAPITAL PROJECTS	61.0 million

Senator HANSEN. If I could ask one further question, Mr. Chairman? Mr. Rice, on page 4 of your prepared remarks, that first paragraph, you say without financial relief, an additional \$30 million in capital projects will have to be deferred in fiscal years 1976 and 1977. This is a total of \$61 million for the period fiscal year 1976 through 1977.

My question is, the Governor has testified their budget for this coming year is about \$117 or \$119 million, and maybe \$1.8 million additional would be needed for those ongoing capital projects that are in construction now. How much, or could you be more concise, are you saying that \$30 million of the overall budget down there will be spent, or would have been spent with financial relief if things were going before they were earlier going, before the recession and before the rebate occurred, that \$30 million would have been spent in these two fiscal years, 1976-77?

Mr. RICE. If I may, I'll defer to Mr. Sander of our office. He will give you a specific answer.

Mr. SANDER. I think, Senator, the Governor was talking about \$1.8 million in small capital improvements and possibly some repairs. What is projected in their overall capital improvement program is \$30 million for 1976-77 if they have the money. That is what this bill is about.

Senator HANSEN. We are talking about a financial crisis and specifically focusing in on the need for additional funds for operating expenses. I assume by that the Governor has in mind the payment for salaries of policemen and firemen and city workers, all of the things that are done normally as well as schools. Would I be right in making that assumption, Governor?

Governor KING. That is right, Mr. Chairman. We anticipate for the next fiscal year, the 1976-77 fiscal year, that that figure will amount to roughly \$9.8 or \$9.9 million—

Senator HANSEN. You mean \$9.8 or \$9.9 million is what?

Governor KING. The shortfall.

Senator HANSEN. Of operating money?

Governor KING. Yes; for the coming fiscal year, and for the next fiscal year we estimate that figure would drop to \$5 million.

Senator HANSEN. My next question would be, I don't know how these capital projects—are they all being funded out of the budget that derives largely from the payment of income taxes? Is that historically the way these projects have been funded, or do you have revenue bonds you have sold or constructed with or not?

Governor KING. With your permission, I will ask the budget director to respond to that question.

Mr. MOORHEAD. There are four or five sources of capital moneys the Government has available. One is the internal revenue matching fund which is the moneys returned from the excise tax assessed on the rum shipments to the United States.

There is \$39 million worth of outstanding general obligation bonds that the government of the Virgin Islands, an indebtedness of the Virgin Islands presently outstanding—

Senator HANSEN. Some of that general obligation fund money has been used to finance capital projects?

Mr. MOORHEAD. All of it is used to finance capital projects. What we were forced to do this year to meet the expenditures of the operating budget was to transfer moneys from these set-asides. The money set aside usually just for capital projects.

We have been forced to transfer moneys from these accounts into the general fund which is the operating budget of the Virgin Islands.

Senator HANSEN. I can anticipate, of course, if you have ongoing capital construction projects, if you shut them down, one of the immediate things would be the unemployed would go up, your welfare costs would go up, but I would assume also, some of the projects may also be revenue producing. Am I right about that or is that not right?

Mr. MOORHEAD. These are all facilities, sir. Education, expansion of schools, expansion and improvements to hospitals, that type of thing. It is not a revenue-generating project.

Senator HANSEN. It would go more deeply than simply a revenue-producing thing. While a hospital does, of course, produce some revenue, there are far greater social consequences of not finishing it up, and you could exacerbate a health situation.

Mr. MOORHEAD. It is to this point, Senator, as the Governor mentioned, that total revenue matching fund, which is one portion of our project, matching moneys we receive back from the Federal Government, some \$18 million. The Government of the Virgin Islands is only utilizing 1 million of those dollars for capital improvement projects primarily because of the need for making some loan repayments, and the needs of the general fund budget or the operating budget.

Senator JOHNSTON. Gentlemen, thank you very much for your testimony. We look forward to receiving additional information. We are aware of your serious problem, and we would like to do something not only to solve your capital improvement fund, but your operating problems.

The latter problem will be much more difficult from our standpoint.

Senator HANSEN. I know some of the people who are interested in the resort hotel business in the Virgin Islands. Has the increasing incidence of crime, if it is true, if there has been an increased incidence of crime, been a factor that has militated against occupancy in the resort hotels?

Governor KING. I feel this was true at the time of the incident which was some years ago. I think it is true, however, that essentially tourism certainly has been much better this year than it has been in the past 3 or 4 years.

There is every indication that we have passed that point, that we would all like to forget an incident that was blown out of all proportions by the press within the continental limits of the United States.

Senator HANSEN. I gather you said that with a touch of irony in your voice.

Governor KING. I resent the attitude of the press with regard to this matter. They were reporting one incident and made it appear as if it were a daily occurrence. They were trying to do worse than that, they were trying to make it appear that the racial situation in the Virgin Islands was such that it was intolerable, when it was essentially economic and not racial at all.

They were doing this within a time in the United States where you had far worse incidents in terms of numbers, not only occasionally, but every day, and nothing was said about it. Every opportunity was taken to put it on the front page and tie up with every single story, whether it had anything to do with it or not. I feel very strongly about it.

Senator HANSEN. I don't know about your situation, Governor. Let me say your remarks have not fallen on deaf ears. I come from Wyoming, and I notice the New York Times loves to send the reporters out to our State to find out how bad things are in Gillette, Wyo., or Rock Springs.

Senator JOHNSTON. Gentlemen, thank you very much.

[Whereupon, at 11:58 a.m., the hearing was adjourned.]

[Subsequent to the hearing, the following communications were received by the committee:]

ST. CROIX, V.I., May 16, 1976.

Senator HENRY M. JACKSON,
Chairman, Interior and Insular Affairs,
Senate of the United States,
Washington, D.C.

Dear SENATOR. Please do *not* vote affirmatively for funds for the Federal Aviation Administration which include funds for a completely new airport St. Thomas, U.S. Virgin Islands. The minimum cost of this proposed project is \$50 million to \$75 million of Federal funds and from \$13 million to \$25 million of local funds from an already quasi-bankrupt Virgin Islands Government which is requesting the Federal Government to bail it out.

We already have an adequate international airport in St. Croix, Virgin Islands, which is 7,600 feet and capable of handling *all* current aircraft to the Virgin Island, including the Boeing 747.

We do not need another new international airport in the Virgin Islands in St. Thomas. The United States does not need it: The United States cannot afford this waste of funds: The Virgin Islands cannot afford it either.

Please insist that unnecessary funds for the Federal Aviation Administration for an Airport in St. Thomas be deducted to save the expense to the Federal Government and to the Virgin Islands Government, accordingly.

Your assistance will be appreciated.

Sincerely

ROBERT V. VAUGHN.

ST. CROIX, V.I., May 17, 1976.

Senator HENRY M. JACKSON,
Chairman, Interior and Insular Affairs,
Senate of the United States,
Washington, D.C.

Dear SENATOR JACKSON: Please vote in the negative concerning legislation to loan the Virgin Islands government \$76 million or any other amount. We cannot afford to saddle our future generations for the extravagances of the present and the past Virgin Islands government.

Do not loan us any more funds. Let us in the Virgin Islands learn to live within our income. Do not reward political inefficiency by loans or appropriations which cover shortages, mistakes and extravagances. Please do not encourage fiscal irresponsibility and recklessness.

Just as we cannot afford a new \$50 to \$100 million dollar airport in St. Thomas, so too we cannot afford to borrow \$76 million from the U.S. Government. Please do not vote for the V.I. loan, or deficit financing.

Your assistance will be appreciated by the majority of Virgin Islanders.

Sincerely,

ROBERT V. VAUGHN.

P.S. Any special concession to permit federal or private loans to the Virgin Islands Government, involving deficit financing, should have to have the approval of the people of the Virgin Islands, and such approval should be *mandated* by the Federal Government—through a referendum—not left up to the vote of local legislators.

