

**H.R. 3589, TO CREATE THE  
OFFICE OF CHIEF FINANCIAL  
OFFICER OF THE GOVERN-  
MENT OF THE VIRGIN IS-  
LANDS.**

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**LEGISLATIVE HEARING**

BEFORE THE

COMMITTEE ON RESOURCES  
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

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Wednesday, June 16, 2004

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**Serial No. 108-97**

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**LEGISLATIVE HEARING ON H.R. 3589, TO CREATE THE OFFICE OF CHIEF FINANCIAL OFFICER OF THE GOVERNMENT OF THE VIRGIN ISLANDS.**

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**Wednesday, June 16, 2004  
U.S. House of Representatives  
Committee on Resources  
Washington, D.C.**

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The Committee met, pursuant to notice, at 10:00 a.m., in Room 1324, Longworth House Office Building, Hon. Jeff Flake presiding.

Present: Representatives Flake, Rehberg, Renzi, Pearce, Faleomavaega, Christensen, Inslee, Udall of New Mexico, and Bordallo.

**STATEMENT OF HON. JEFF FLAKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA**

Mr. FLAKE. The Committee on Resources will come to order. The Committee is meeting today to hear testimony on H.R. 3589, a bill to create the office of Chief Financial Officer of the Government of the Virgin Islands.

Mr. FLAKE. Under Rule 4(g) of the Committee Rules, any oral opening statements at hearings are limited to the Chairman and Ranking Minority Member. This will allow us to hear from our witnesses sooner and help Members maintain their schedules. Therefore, any other Members, if they have statements, they can be included in the hearing record under unanimous consent.

On behalf of the full Committee, I want to welcome everyone here. I particularly want to welcome those who have traveled from the Virgin Islands to give testimony and to listen. We are fortunate to have you here today. Thank you for coming.

Our full Committee hearing today will focus on the legislation introduced by my colleague from the Virgin Islands, Mrs. Christensen. It is my hope that we will be able to address both the reasons for the current troubling financial or fiscal situation that exists in the U.S. Virgin Islands as well as the various options to remedy the situation.

Beginning with the original Organic Act of 1936 which established the extent of local control in the Virgin Islands, the Federal Government has recognized the importance of self-governance in the Islands. Still, the strong role of the Federal Government and

the monetary assistance it provides directly connect us to both applauding its successes and addressing its struggles.

Specifically, H.R. 3589 will provide for a Chief Financial Officer and the staff necessary to assist this person in the very serious work of thoroughly analyzing all programs that involve spending by the Government of the Virgin Islands. Clearly, Mrs. Christensen intends to take a proactive approach in addressing repeated deficits that have plagued her district. While these deficits are not addressed and are simply contributions to a larger—when these deficits are not addressed and are simply contributions to a larger debt, serious actions must be considered.

The current debt that continues to rise in the Virgin Islands is really not a recent problem, though it surely continues to worsen. In fact, former Secretary of the Interior Bruce Babbitt signed a Memorandum of Understanding with the Government of the Virgin Islands, placing vital Federal monies and technical assistance as contingent upon following the defined standards for fiscal accountability in 1999.

But the current lack of any economic recovery remains. Contributing factors include a gradually declining tourist industry as well as the devastation that has resulted from multiple hurricanes in the Virgin Islands. This cannot be ignored.

Still, current spending practices have led to increased debt. Still, this problem is not entirely attributable to those factors mentioned above that are particularly acute in a tourism-based economy. For this reason, my colleague, Mrs. Christensen, has introduced H.R. 3589, tackling what is politically and practically a very challenging issue.

Our hearing today should highlight the ways in which we can truly bring the Federal Government together with the Government of the Virgin Islands to ensure that taxpayer dollars are spent efficiently. This should be pursued in a manner that does not directly hinder the largely positive relationship the Federal Government has had with the Virgin Islands since their transfer to the United States in 1917.

The Delegate from the Virgin Islands should be lauded for her efforts to address this issue in a very public manner. She has already conducted town hall meetings seeking the input of local residents, and it is my hope that she will continue to do so.

Ideally, our hearings today will provide a thorough examination of H.R. 3589 and raise points of continued discussion for this Committee and for the Government of the Virgin Islands. Much like the debate in Congress surrounding balancing our Federal budget, the intent of H.R. 3589 in reining in spending has gone on for years. This hearing should allow for tangible steps to be taken to reach that goal, resulting in the physical stability and eventual economic growth necessary to the successful future of the Government of the Virgin Islands and its residents.

I thank the witnesses again for being here today and particularly those who have joined us from the Virgin Islands.

The Chairman now recognizes the Ranking Minority Member for any statement she might have.

[A statement submitted for the record by Chairman Richard Pombo follows:]

**Statement of The Honorable Richard W. Pombo, Chairman,  
Committee on Resources**

Good morning. On behalf of the full Committee, I would like to welcome everyone in attendance today and specifically our witnesses. We are fortunate to have with us today multiple individuals who have traveled from the United States Virgin Islands.

Our full Committee hearing today will focus on the legislation introduced by my colleague from the Virgin Islands, Mrs. Christensen. It is my hope that we will be able to address both the reasons for the current troubling fiscal situation that exists in the U.S. Virgin Islands as well as the various options to remedy the situation.

Beginning with the original Organic Act of 1936, which established the extent of local control in the Virgin Islands, the Federal government has recognized the importance of the self-governance in these islands. Still, the strong role that the Federal government and the monetary assistance it provides directly connect us to both applauding its successes and addressing its struggles.

Specifically, H.R. 3589 will provide for a Chief Financial Officer and the staff necessary to assist this person in the very serious work of thoroughly analyzing all programs that involve spending by the Government of the Virgin Islands.

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The current debt that continues to rise in the Virgin Islands is really not a recent problem, though it surely continues to worsen. In fact, former Secretary of Interior, Bruce Babbitt, signed a Memorandum of Understanding with the Government of the Virgin Islands placing vital Federal monies and technical assistance as contingent upon following the defined standards of fiscal accountability in 1999.

But the current lack of an economic recovery remains. Contributing factors including a gradually declining tourist industry as well as the devastation that has resulted from multiple hurricanes in the Virgin Islands cannot be ignored. Still, current spending practices have led to increased debt. Still this problem is not entirely attributable to these factors mentioned above that are particularly acute in a tourism-based economy.

For this reason, my colleague Mrs. Christiansen has introduced H.R. 3589, tackling what is politically and practically a very challenging issue.

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Much like the debate in Congress surrounding balancing our Federal budget, the intent of H.R. 3589 in reigning in spending has gone on for years. This hearing should allow for tangible steps to be taken to reach that goal, resulting in the fiscal stability and eventual economic growth necessary to the successful future of the Government of the Virgin Islands and its residents.

I thank the witnesses again for being here today and particularly those who have joined us from the Virgin Islands.

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**STATEMENT OF HON. DONNA M. CHRISTENSEN, A DELEGATE  
IN CONGRESS FROM THE VIRGIN ISLANDS**

Mrs. CHRISTENSEN. Thank you, Mr. Chairman. I want to begin by thanking the Chairman for scheduling this hearing today and thanking you, Mr. Flake, for so ably sitting in for him and I appreciate both your and the Chairman's willingness to address and respond to the concerns of the offshore insular areas.

Let me welcome our colleague, Congresswoman Eleanor Holmes Norton; the Governor of the Virgin Islands, The Honorable Charles Turnbull; Senate President Jones; Senator Russell; former Senator

Redfield; my fellow Virgin Islanders who have submitted written testimony and those who have come to observe the hearing today, and our Interior witness, Mr. Nick Pula.

Mr. Chairman and colleagues, today is a day of great challenge for me because by virtue of introducing the bill before us, I am highlighting the shortcomings of my home district and addressing the serious fiscal problems that we are facing. Further, I am being opposed by the members of my local party, which passed a resolution opposing my action, by members of the 25th Legislature of the Virgin Islands, which went further, passing a resolution condemning my taking this action, and by the Governor of the Virgin Islands, who is with us here today.

Since 1997, there have been at least three fiscal crises in the Virgin Islands which threatened the sovereignty of the government. During the administration of Governor Roy Schneider, at his request, Congress passed legislation to make it possible for the territory to issue parity bonds instead of priority bonds. This allowed the territory to refinance the rum fund bonds and secure \$250 million, which the Government of the Virgin Islands then used to balance its budget.

Governor Turnbull, in his first State of the Territory Address, announced that the state of the government's finances was very grave and that the territory faced a projected shortfall of \$246 million. He also announced then the possibility that there could be payless pay days for government employees and a curtailment of essential basic services.

Thus, at the beginning of his administration, I sponsored legislation on his behalf to allow the territory to issue short-term notes. We used this authority to then borrow \$300 million to balance the budget as well as pay overdue tax refunds and vendor payments.

Governor Turnbull and his team of financial advisors did a remarkable and commendable job in averting disaster in 1999 and should be commended for their effort. Indeed, under Governor Turnbull's watch, the Virgin Islands became the first offshore insular area to complete the governmentwide single audits for Fiscal Year 2000 and 2001, as required by all States and local governments by the Federal Audit Act.

Even with all of this in place, last April, Governor Turnbull was forced once again to declare that the territory was facing a financial crisis, which led the administration to borrow another \$235 million to balance the budget.

It has been said that my bill would erode the gains the territory has made to a greater self-governance and be a step backwards toward colonialism. As a proud daughter of the Virgin Islands, I am deeply offended by this charge. What would indeed be more colonialist than the Virgin Islands having to lose all ability to govern ourselves as we would if we were to become bankrupt?

To me, the imperative is that we act now to avoid eventual fiscal catastrophe by putting in place a mechanism whereby the pressures to spend more than we have, no matter how worthy the effort, will be tempered by the reality that the budget must be balanced. Our people deserve no less.

Since the mid-1990's, successive administrations and legislatures have, and for very good reasons, not been able to maintain sound



fiscal management and financial policies. While some of the reasons for this condition have been recurrent catastrophic hurricanes and the tax cuts and credits passed by the Congress, much of the blame for this condition can be traced to the unfortunate reality that the territory's managers and law makers have not substantively addressed the imbalance between the needs and the demands of the community and its revenues.

To further elucidate, I would quote the Governor's first financial advisor when he said of the former administration and legislatures that, and I am quoting here, "a factor contributing to the structural deficit of the U.S. Virgin Islands is the use of questionable anticipated revenues that may never be realized to offset expenditures." This practice, not uncommon in many other jurisdictions, continues to be a factor today.

I also want to quote another current official, this time the Federal Inspector General, who wrote after recounting recurring deficiencies in audits over the years that, and here I am quoting again, "although the government may implement recommendations that address the specific deficiencies and transactions noted in audit reports, it often does not implement recommendations that call for substantive systemic changes in operating policies and procedures to ensure that similar problems do not occur in the future."

It is definitely not my intention in introducing H.R. 3589 to cast aspersions on the fiscal policies of the Turnbull administration or the 25th Legislature, nor do I want to call undue attention to our problems. However, I feel very strongly that I could not sit idly by in the face of fiscal crisis after fiscal crisis and the absence of an effective local structural remedy without offering some solution to temper or soften the difficult decisions that have to be made by us ourselves, not the Federal Government, to get us out of this roller coaster crisis-by-crisis approach to managing our affairs.

Mr. Chairman and colleagues, the purpose and intent of my bill is simple. The CFO will, for a limited time of 5 years, oversee the Office of Management and Budget, thereby enhancing an already existing division within government. His or her specific duties are outlined in the base bill but may be more clearly delineated pending recommendations coming from this hearing.

Very important to the optimal functioning of the Chief Financial Officer is that they cannot be removed for political considerations but only for cause.

Contrary to the assertions of opponents, my bill will not take away any authority currently enjoyed by the elected leadership of the Virgin Islands except the authority to overspend.

In closing, let me say that I share the view of former four-term Virgin Islands Senator and Commissioner of Economic Development Eric Dawson, who points out in a written statement on the bill that this bill is far from taking the territory back to colonial times, but that it is about, and I am quoting here, "that it is about the future and future generations, that it is about education, public health, public safety, and it is about providing for those who cannot take care of themselves. Further," he goes on to say, "that it is about preventing the territory from having to go hat in hand to the Federal Government for a bailout with the true and complete loss

of autonomy that that would involve when we are unable to meet our fundamental obligations to the people of the Virgin Islands.”

[The prepared statement of Mrs. Christensen follows:]

**Statement of The Honorable Donna M. Christensen, a Delegate in Congress from the Virgin Islands**

I want to begin by thanking you Mr. Chairman for scheduling this hearing today. As a member of this committee for some years now, and now chair, you have demonstrated your willingness to respond to the concerns of the offshore insular areas, and we applaud you for that.

I welcome our colleague Congresswoman Norton, the Governor of the Virgin Islands, The Honorable Charles Turnbull, Senate President David Jones, Senator Russell, former Senator Redfield, my fellow Virgin Islanders who have submitted written testimony and who have come to observe and the Interior Witness, Nick Pula

Mr. Chairman and colleagues, today is a day of great challenge for me because by virtue of introducing the bill before us, I am highlighting the shortcomings of my home district in addressing the serious fiscal problems that we are facing.

Furthermore, I am being opposed by the members of my local Party which passed a resolution opposing my action; by the Members of the 25th Legislature of the Virgin Islands which went further, passing a Resolution “condemning” my taking this action; and by the Governor of the Virgin Islands who is here to testify today.

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It has been said that my bill would erode the gains the territory has made towards greater self-governance and be a step backwards towards colonialism. As proud daughter of the Virgin Islands I am deeply offended by this charge.

What would indeed be more colonialist than the Virgin Islands having to lose all ability to govern ourselves as we would if we were to become bankrupt?

To me, the imperative is that we act now to avoid eventual fiscal catastrophe by putting in place a mechanism whereby the pressures to spend more than you have, no matter how worthy the effort, will be tempered by the reality that the budget must be balanced. Our people deserve no less.

Since the mid-1990’s, successive administrations and Legislatures have—for good reasons—not been able to maintain sound fiscal management and financial policies. While some of the reasons for this condition have been recurrent catastrophic hurricanes and the tax cuts and credits passed by Congress, much of the blame for this condition can be traced to the unfortunate reality that the Territory’s managers and lawmakers have not substantively addressed the imbalance between the needs and demands of the community and its revenues.

To further elucidate, I would quote the governor’s first financial advisor when he said of the former administration and legislature that;

"A factor contributing to the structural deficit of the USVI is the use of questionable anticipated revenues that might never be realized to offset expenditures."

This practice, not uncommon in many other jurisdictions continues to be a factor to this day.

I also want to quote a current official, this time the Federal Inspector General who wrote after recounting recurring deficiencies in audits over the years, that:

"Although the government may implement recommendations that address the specific deficiencies and transactions noted in audit reports, it often does not implement recommendations that call for substantive, systemic changes in operating policies and procedures to ensure that similar problems do not occur in the future."

It is definitely not my intention introducing H.R. 3589, to cast aspersions on the fiscal policies of the Turnbull Administration or the 25th Legislature nor do I want to call undue attention to our problems. However, I feel very strongly, that I could not sit idly by in the face of fiscal crises after fiscal crises, in the absence of an effective local structural remedy, without offering some solution to temper or soften the difficult decisions that have to be made by us, ourselves—not the federal government—to get us out of this roller coaster crisis-by-crisis approach to managing our affairs.

Mr. Chairman and colleagues the purpose and intention of my bill is simple: The CFO will, for a limited term of 5 years oversee the Office of Management and Budget, thereby enhancing an already existing division within the government. His or her specific duties are outlined in the base bill but may be more clearly delineated pending recommendations coming from this hearing. Very important to the optimal functioning of the Chief financial Officer is that they cannot be removed for political considerations, but only for "cause."

Contrary, to the assertions of opponents, my bill will not take away any authority currently enjoyed by the elected leadership of the Virgin Islands except the authority to overspend.

In closing, let me say that I share the view of former four-term Virgin Islands Senator and Commissioner of Economic Development, Eric Dawson, who points out in a written statement on the bill: That H.R. 3589 is far from taking the territory back to colonial times, but "that it is about the future and future generations; that it is about education, public health, public safety and it is about providing for those who cannot take care of themselves." Further that it is about preventing the territory from having to go hat in hand to the federal government for a bail out—with the true and complete loss of autonomy that would involve—when we are unable to meet our fundamental obligations to the people of the Virgin Islands. "

It has not been easy for me to watch the fiscal health of the territory steadily decline since I have been in office. However, as I reflect on what led me to this point today, and the discomfort of my situation, I am reminded of a quote by Dr. Martin Luther King, Jr. in which he said: "The ultimate measure of a man is not where he (or she) stands in moments of comfort and convenience, but where they stand in times of challenge and controversy."

Mr. Chairman, we are indeed facing challenging and controversial times in the Virgin Islands. The action or inaction of those of us in leadership today will have a profound impact on our future.

Thank you again Mr. Chairman, and welcome to the panels. I look forward to your testimony.

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Mrs. CHRISTENSEN. Mr. Chairman, I will be submitting for the record testimony taken from our hearings as well as several written testimonies that have already been submitted and I thank you again, Mr. Chairman, welcome the panels, and I look forward to the testimony.

Mr. FLAKE. I thank the Delegate from the Virgin Islands.

[The letters and statements submitted for the record follow:]

[A statement submitted for the record by Eric E. Dawson, Virgin Islander, follows:]

**Statement submitted for the record by Eric E. Dawson**

Members of the distinguished Committee on Resources:

I am Eric E. Dawson a Virgin Islander who currently resides in the Commonwealth of Virginia, but has retained a keen interest in the governance of my home, the U.S. Virgin Islands. I served in various capacities within the Government of the Virgin Islands over a period of thirty years (1965-1995). First, as the executive secretary to the Legislature of the Virgin Islands, as the Chief Legal Counsel to the Legislature, eight years as an elected member of the Legislature and lastly, as the Commissioner of Economic Development. This includes serving as the Chairman of the Industrial Development Commission and the Virgin Islands Port Authority for eight years.

I believe that the services, which I performed in the various capacities in the Government of the Virgin Islands, qualify me to express a few words on behalf of the subject matter before this Honorable Committee on Resources.

The major part of the financial resources of the Government of the Virgin Islands is generated from tourism, which accounts for approximately 60% of the operating budget. HOVENSA and other ancillary industries account for the remaining 40%. Internal Revenue Matching Funds, which are generated from the sale of rum, is used for the most part to retire bond indebtedness. A portion of the gross receipts taxes is also used to retire bond indebtedness. The government's payroll absorbs approximately 80% of the operating budget and the remainder is used for miscellaneous local projects. As a consequence of the tight financial situation, there have been times when the government's financial officers were uncertain about the ability to discharge the government's obligation to meet the bi-weekly payroll. In recent times it has been suggested that the workweek be reduced from 5 to 4 days, which is in itself drastic, but that just shows the nature of the problem. This does not portray a healthy financial picture for the territory.

The Government of the Virgin Islands is in dire financial straits as it stands today. While tourism is generating the major part of the revenue, it is a fickle industry where travel could be curtailed for one reason or another. The outlook for travel this year could depend largely on the cost of jet fuel. Ticket prices are being raised to compensate for the higher energy cost, which could consequently discourage travel to the territory by air. Air passengers spend more money in the territory when compared to cruise ship passengers; they stay longer and purchase premier goods and services. The projections for gross receipts and other taxes may have to be revised downward, and if spending cuts do not reflect the reality of the economy, a hefty deficit will be incurred for the fiscal year which will be added to other previous deficits.

The management of the revenues and expenditures of the Virgin Islands require a neutrally empowered person who will have veto power to curtail expenditures that the territory cannot afford. That person should be the Chief Financial Officer.

Currently, when the Governor vetoes a financial measure, the Legislature invariably moves to override the veto whether not the funds are available. This creates a crisis in credibility and creates false hopes among the constituents. In all probability, such actions serve to exacerbate the financial problem of the territory. There has to be a doorstopper, and that person will be the Chief Financial Officer.

While one governor may have the courage to say no to unsupported legislated spending, this might not be the case for a succeeding governor, therefore, there is a need for a neutral party to say no when the answer is no.

As a result of the introduction of this measure to create the position of Chief Financial Officer, it has been suggested that this takes the territory back to colonial times. I opine that this not true; this measure seeks to prevent the territory from going back to the Federal Government seeking loans for a bail-out when we are unable to meet our fundamental obligations to the people of the territory.

H.R. 3589 is about the future; it is about future generations; it is about education, public health, public safety and it is about providing for those who cannot take care of themselves. It is about preserving something for future generations of Virgin Islanders.

I support H.R. 3589 and respectfully recommend its approval by the committee.

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[A letter submitted for the record by Violet Anne Golden, Former Member of the 23rd Legislature of the U.S. Virgin Islands, St. Croix, Virgin Islands, follows:]

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June 17, 2004

The Honorable Richard Pombo, (R-CA)  
Chairman  
Committee on Resources  
1324 Longworth House Office Building  
Washington, DC 20515

RE: Legislative Hearing on H.R. 3589, to create the Office of Chief Financial Officer  
of the Government of the Virgin Islands

Dear Congressman Pombo:

Today, your Committee will receive testimony on H.R. 3589 to create the Office of Chief Financial Officer of the Government of the Virgin Islands. Congressman Pombo, this bill is extremely important to us here in the U.S. Virgin Islands, and to survival of our fragile economy. In my humble opinion, a complete takeover of the Government of the Virgin Islands would be the ultimate step towards economic prosperity, but this legislation, drafted by our dear Congresswoman Christensen, who I consider a fair representative and a personal friend, is a good start toward resolving our serious economic problems. Our Congresswoman is courageous, and has gone against her own Democrat Party colleagues to promote one of the most controversial pieces of legislation in our history.

Kindly add my name to the list of citizens, and taxpayers who support H.R. 3589, which I view as the first acknowledgment by the ruling "Democrat" party that their years of big spending, and big government have bankrupted this territory, and we are at the end of our rope. There is uncertainty in the air here at home; citizens are scared to death of losing their government jobs, and the private sector is shrinking daily, and no one dares to voice their discontent lest you face the swift wrath of the Turnbull administration. The government of the Virgin Islands is, regrettably, the "largest" employer, and still growing. That is the politics of island life.

Unfortunately, there is no positive sign of economic recovery in sight, and the recent regressive tax policies of the administration, and the reckless spendthrift ways of our Legislature are not engendering support from the taxpayers or creating a positive investment environment for the Virgin Islands.

I am a resident of the island of St. Croix, and a former Republican member of the Twenty-Third Legislature of the U.S. Virgin Islands. My family has lived in these Virgin Islands for more than 400 years, and I love my home and my country dearly. I have lived in these islands most of my life, and today is not a proud moment in our history. My great uncle Arnold M. Golden testified before the Congress of the United States in the 1930's for passage of what we now call the Organic Act (our Constitution). He would be embarrassed at the state of affairs of our territory today. We are a proud people with a proud history, which is now threatened by a group of reckless public officials who have either forgotten our rich history, or do not know our rich history.

I had the distinct opportunity to serve on the Economic Recovery Task Force representing the Legislature. The Task Force was charged with developing a draft plan of action to address the short-range and long-range financial challenges facing the Government of the Virgin Islands back in 1999. The Department of Interior invested \$500,000 to this effort, and its investment was all for naught. Our undisciplined public officials praised the efforts of the Task Force, bragged about the Five Year Plan, and left the plan to collect dust on a lonely shelf. On April 27, 2000 in the Message from the Governor contained in the Five Year Operating and Strategic Financial Plan Governor Turnbull said "This Government faces a financial crisis of a great magnitude, and we cannot continue to use band-aid approaches to solving it. This, after evaluating the options such as: (1) increasing taxes and fees (2) cutting Government services (3) cutting the costs of Government and (4) growing and strengthening the private sector, it was concluded, from economic, financial and social point of view, it is not prudent to raise taxes at this time." He further stated: "The Five Year Plan, therefore, selects and promotes the only logical choice left for the people of the U.S. Virgin Islands to cut the cost of Government services and

improve their delivery and strengthen the private sector base to further growth opportunities. The Five Year Plan proposes a complete restructuring of the way the business of Government is handled on a day-to-day basis, and it estimates that this restructuring will eliminate the structural deficit by generating a total of more than \$280.0 million in savings over the next five years. The steps outlined in the Five Year Plan bring the Government's budget into balance starting in FY 2004." The Plan was never implemented as recommended. The Administration and Legislature chose to implement some sections of the Five Year Plan depending on their re-election bid potential. In spite of the Federal investment of \$500,000 precious taxpayer dollars, the Interior Department did not attach any penalties against the Government for their failure to implement this proposal as outlined in the plan, or adhere to the MOU between Interior and the Government of the Virgin Islands.

The past four fiscal years have been challenges for the V.I. Government as they continued to borrow more money to meet their payroll, and to balance their budget. This borrowing continues today, without end. Fraud and corruption in government have also been rampant, which adds significantly to the cost of government.

Mr. Pombo, what we have here in the Virgin Islands is an undisciplined government. It can be best described in one word "dysfunctional." It needs your help. Please do not listen to the voices of some politicians who will scream that this bill reeks of "colonialism." This is their "red herring" to make you feel uncomfortable about making a tough decision for our community. It is nothing more than "false pride" and they need to get out of this "victim village." They need to face the fact that they have mismanaged taxpayer's dollars, and must be held to account for their actions.

Mr. Pombo, we are on the verge of economic collapse here in the Virgin Islands. Crime is rampant; Inspector General Audits (federal and local) has shown a consistent trend in misuse of federal and local dollars; the Government cannot meet its vendor payments to businesses, and tax refunds to its citizens; the Government owes the Water and Power Authority more than \$15 million and growing; bondholders are owed millions in interest payments; borrowing has now exceeded \$700 million dollars and growing; unemployment on St. Croix alone is now over 12%. More than 50 businesses have closed over the last year, and our tax base has eroded significantly with the departure of not only businesses but professionals who have moved the mainland for better opportunities; the Government has recently threatened to cut off payments to the two only semi-autonomous hospitals in the Virgin Islands; our second-largest employer, HOVENSA recently threatened to cut-off fuel to our Government-owned Water and Power Authority which has cash-flow problems; we have no cruise ship visits to St. Croix, in spite of the construction of a multi-million dollar port in the town of Frederiksted; air arrivals to St. Croix are limited to two major airlines with two flights to the mainland daily, and about four 10 passenger airlines which offer the bulk of flights either inter-island or to Puerto Rico; sewage seeps into our pristine waters daily, and the illegal landfill is now threatening air arrivals to St. Croix; our Housing Authority recently went into receivership and the Education Department oversees no accredited public schools in the Virgin Islands, and is under federal watch; the Legislature has spent a record \$16 million for its operation and the figure keeps growing for 15 elected members of that body; Is this the life our people deserve? Is this the government our forefathers fought so hard to achieve?

Our Governor is in complete denial, and the Legislature (a majority are members of the Democrat Party) are complicit in the mismanagement, since none has made the administration accountable for its spending of precious, hard-earned taxpayer dollars. None have shown true leadership and oversight of our precious resources.

Mr. Pombo, it is against this backdrop that our Honorable Congresswoman has proposed this necessary legislation. She deserves support and should be commended for our "courage under fire."

I urge you and your colleagues to visit the Virgin Islands, drive through our pot-hole-ridden streets, visit our unsanitary landfill that the FAA has deemed a threat to air travel, visit our beaches where raw sewage seeps daily and are under Federal Court sanctions, visit our unaccredited schools, visit our empty ports, and drive by our unkempt litter-strewn streets, talk to our citizens and members of the business community, and you make up your own mind.

Please do not view the divisions over this legislation in your committee as the only source of information from which to make your ultimate judgment. Review the single audits and look at the factual trends since 1999; look at the level of questioned costs and the consistent decrease in federal dollars since 1998. Please compile all the facts necessary before this legislation is put to a vote, and I can assure you that you will be in a better position to make a true judgment of our financial state once you see and read the facts.

Your support of this legislation is important to the future of the Virgin Islands.

SINCEREST REGARDS,  
VIOLET ANNE GOLDEN

CC: Resource Committee Members

[A statement submitted for the record by Derek M. Hodge, National Committeeman of the Democratic Party, U.S. Virgin Islands, follows:]

**Statement of Derek M. Hodge, National Committeeman of the Democratic Party of the U.S. Virgin Islands**

I am the National Committeeman of the Democratic Party of the Virgin Islands and I am disappointed that I was not invited to offer my opinion of H.R. 3589 which seeks to impose a Chief Financial Officer on the Government and the people of the Virgin Islands. I also am disappointed that your Committee, and particularly our Delegate, did not think it important enough to hold these hearings in the Virgin Islands.

I am unalterably opposed to the imposition of a Chief Financial Officer ("CFO") for the Virgin Islands because it is an insult to the people of the Virgin Islands. It is unnecessary. It is a step backward in our political progress, and it will not work. I am also as offended by this unilateralism on the part of the Delegate to Congress of the Virgin Islands as I was when then Governor Roy Schneider, without the approval of the people of the Territory, sought to have Congress amend the Revised Organic Act to alter the power of the Lt. Governor in our political hierarchy. The time is long past when Congress can amend our constitution, or impose changes to our political system, without the input of the people of the Virgin Islands. Unlike the District of Columbia where the City Council cannot sneeze without your approval, we are not a fiefdom of the Congress.

The constitutional way to change our political system is to have a referendum in which the people of the Virgin Islands affirmatively approve the proposed change. We have not had the benefit of a referendum to do that, and while our Delegate avers that she has anecdotal evidence that "the people" support this bill, I am aware of as many, if not more, people who oppose it. I repeat, any attempt to change our political system must be approved by the voters of the Virgin Islands before Congress acts for it to have any legitimacy in these times. The elected leaders of the Virgin Islands oppose this bill, and their opinions must be respected. And it is the opinion of the Governor and the Legislature to which Congress should look for guidance today.

Many years ago, Alexander Hamilton, who grew up on St. Croix, was a part of a revolutionary change in the governance of nations. The founding fathers of the United States believed that the fundamental essence of democracy is that government must be of the people, by the people and for the people. In short, no one person has the authority to impose his/her will on the polity, and political change can only occur through the electoral process. This is the lesson, I believe, we are trying to teach in Iraq where the blood of our young people, and those of our allies, is being shed to ensure that democracy takes root. So why should it be any different in the United States Virgin Islands which has been a territory of the United States since 1917?

We have come a long way from the days when the Congress imposed a Naval Governor on our Islands, when Congress imposed a Government Secretary on the Territory whose only claim to fame was that he had been a butler in the White House, when Congress imposed a Controller on the Territory. The last Controller we had was Peter Bove and I remember my uncle, Walter I. M. Hodge, former President of the Legislature of the Virgin Islands, telling me the story of the time when then Governor Ralph Paiewonsky reminded Bove that he was not the Governor of the Virgin Islands. Indeed, over the last 50 years, Congress has granted the people of the Virgin Islands more and more self-government, including amending the Revised Organic Act to eliminate the position of Controller and permitting the direct election of the Governor and Lt. Governor.

The bill is a retrogression from the steady march to more self-government which we have experienced. The CFO, as it is conceived, will be chosen by a committee which will recommend the persons from which the Governor will appoint one, subject to confirmation by the Legislature. If there is opposition by the Governor or the

Legislature, the Secretary of Interior will choose the CFO. Doesn't all this fly in the face of constitutional government which the United States is seeking for the rest of the world? And if the CFO takes office, he/she will determine which projects will benefit the people and which will not. Why does Congress think his/her decisions will be any more palatable to a greater number of people than not. This CFO will do exactly what the Director of OMB now does. If the Legislature over appropriates the budget, the CFO decides what projects will be funded, but he/she will not be accountable to the people of the Virgin Islands. This is tyranny, not democracy and King George must be smiling in his grave!

This bill before the Committee is the antithesis of democracy. It would deny the people of the Virgin Islands the right to decide if this is a policy decision they wish to make. If passed, it would install a non-elected person at one of the highest levels of government in the Territory with the authority to determine the public policy for the Territory. It deserves to be placed in the trash bin.

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[A statement submitted for the record by Luis A. Morales, "Tito," Central Labor Council of the AFL-CIO/CLC, St. Thomas, Virgin Islands, follows:]

**Statement submitted for the record by Luis A. "Tito" Morales, President, Central Labor Council, AFL-CIO/CLC, St. Thomas, U.S. Virgin Islands**

Mr. Chairman and Members of the House Committee on Resources:

On behalf of the Central Labor Council, I submit this statement in opposition to the Amendment In The Nature Of A Substitute to H.R. 3589 (Amendment) offered by Mrs. Donna Christiansen, the Delegate to Congress from the U.S. Virgin Islands. The Amendment proposes to create a position of Chief Financial Officer of the U.S. Virgin Islands (CFO) with no accountability to the Governor of the Virgin Islands or the Legislature of the Virgin Islands, thereby resulting in one Supreme Commander with dictatorial control over the financial affairs of the Territorial Government of the U.S. Virgin Islands.

At the outset, let me state that such a substantial transfer of power from both the Executive and Legislative branches of government to a single individual should first be discussed with the V.I. Governor and the V.I. Senators before it is proposed in Congress. This was not done. Moreover, no public referendum was sought by the Delegate to determine whether the majority of Virgin Islanders agreed with such a drastic change in their political status. Any attempts at informal polls are after the fact, are unscientific, are unreliable, and therefore cannot be substituted for a referendum.

Following are some of the other reasons why this colonialistic Amendment should be rejected:

1. The existence of a deficit or a debt is no basis for a colonial takeover by a CFO where, as here, 1\* the deficit is within reasonable limits, 2. where the V.I. Government has not even approached its debt ceiling, and 3, where specific steps have been taken to reduce the deficit, limit the debt, and increase revenues.

Moreover, other options exist that would avoid the need for this extraordinary Congressional withdrawal of autonomy from a Territorial Government in such a routine manner. Indeed, the effect of this legislation is to reduce local autonomy that was granted by the Revised Organic Act. Those Organic Act provisions are so fundamental to the political status of the Virgin Islands that the Organic Act is known as "the Virgin Islands Constitution." No constitution, not even our Organic Act, should be amended as if it is a routine and non-controversial piece of legislation.

In addressing the financial affairs of any government, whether federal, state, city or territory, both the revenue side and the expenditure side must be considered. The CFO bill deals only with the expenditure side, and as stated in Section I(c)(3) the CFO must:

"each year certify spending limits of the annual budget and whether or not the annual budget is balanced."

The United States government is now facing annual deficits in the billions of dollars. If there were an attempt to impose a CFO on the President and the Congress because of such a huge deficit I am sure that your committee would not authorize that CFO to certify your spending limits or to regulate your annual budget. Similarly, the attempt by this Amendment to impose a CFO on the V.I. Governor and Legislature should be rejected by your committee, especially since other available options have not been exhausted, and since this causes such a substantial change in our basic charter.



2. The effort and energy being used by the V.I. Delegate in struggling with this amendment should also be applied in addressing the revenue side of the financial picture, since the increase in revenues will help in the elimination of the deficit and the debt, and avoid the need for a CFO.

One area of revenue that should be considered is the federal excise taxes on gasoline, which by federal legislative amendment could be treated similar to the federal excise taxes on rum. Such revenues, based on Virgin Islands production, would be recurring stinging the need for a CFO.

Other areas of revenue enhancement and debt reduction include (1) federal legislation limiting tax exempt extensions of certain benefits, (2) federal compliance with the "matching fund" provision of the Revised Organic Act and (3) federal forgiveness of FEMA debts directly related to hurricane destruction suffered by the Virgin Islands. Efforts at these and other available options must be attempted and exhausted before the need for this revolutionary Amendment becomes justifiable.

3. This Amendment, if enacted, would destroy the local autonomy which was vested in the Government of the Virgin Islands by the Revised Organic Act of 1954, as amended. This autonomy was reinforced by the creation of three co-equal branches of government, pursuant to Sections 5, 11, and 21 of the Revised Organic Act, and was judicially confirmed as such by the case law of the U.S. Court of Appeals for the Third Circuit, in which the Virgin Islands is included.

Once appropriations are made by the Legislature and the Governor to each of the three coordinate and co-equal branches, each one determines its own allotments or apportionments of those appropriations. Thus, the OMB Director only controls the allotments or apportionments for the Executive Branch, ninety-three percent (93%) of the total budget. The Senate President controls the allotment or apportionments for the Legislative Branch which utilizes only about three percent (3%) of the total budget. Likewise, the Presiding Judge of the Territorial Court controls the allotments or apportionments for the Judicial Branch, which utilizes only about four percent (4%) of the total budget.

Since Section 1(c)(1) of the Amendment states that the first duty of the CFO is to "assume the functions and authority of the Office of Management and Budget established under the laws of the Virgin Islands...", he could not control the allotments or apportionments of the other two branches since the OMB Director has no such control. Thus, any attempt by the CFO to control the allotments or apportionments of the Legislature and the Courts would be challengeable as violative of our constitutional Separation of Powers, and would make the CFO subject to removal for cause. Such disruption, political conflict, and potential court litigation must be avoided by your committee by the rejection of this untimely and unfortunate CFO legislation.

4. This Amendment creates another burdensome financial bureaucracy which, through the CFO, allows the Secretary of Interior to control local financial affairs, contrary to the powers granted by the Revised Organic Act.

Since Section 1 (d) of the Amendment converts the OMB Director into the Deputy CFO "to assist the CFO in carrying out the duties of the Chief Financial Officer", we will be adding to the deficit by paying two officials (not less than "the rate of pay for a cabinet officer") to do the same job. In addition, payment will have to be made by the V. I. Government for the cost of other technicians, staff, consultants, facilities, and other needs of this duplicate office. This is much more costly than the mere addition of one financial officer.

Moreover, no cost projections of this amendment have been submitted by the V.I. Delegate so that its impact on the deficit could be determined. However, even without those projections it is clear that this proposed bureaucracy, though falsely presented in the guise of a single additional employee, will only aggravate our financial problems. Why couldn't the existing OMB Director be legislatively vested with the independence of the CFO? He would then be able to do his job without charges of politics and without the duplicate imposition of a CFO bureaucracy, which will only serve as a surrogate for the Secretary of Interior to control the finances of the V.I. Government by proxy.

Such control by the Secretary of Interior, through the CFO, turns back the clock to the dark days of colonialism when Interior was in charge of local affairs. This Amendment scheme, appearing to be simple and non-controversial, may lead to unintended political confrontations, which may result in unnecessary embarrassment to the United States for violating its obligations to its non-self-governing territories. As the United States struggles to win United Nations support in the War on Terror, now is the time for us to do anything that might be used against our country. Thus, since even the timing of amendment is inappropriate, it should be rejected.

5. In addition to the offensive withdrawal of autonomy granted to the Virgin Islands by the Revised Organic Act, this Bill in Section 1 (b)(2) also vests

extraordinary power in the CFO by requiring the heads of both the VI Department of Finance and the VI Bureau of Internal Revenue to:

“...provide all documents and information under the jurisdiction of that head, that the Chief Financial Officer considers required to carry out his other functions, to the Chief Financial Officer.”

This provision gives the CFO unprecedented access to tax records, personal financial information, and other matters citizen privacy. Such intrusive access must be rejected by your committee.

6. Even the composition of the CFO Search Commission is objectionable. Section 2 of the Amendment provides for an eight-member commission composed of a cross-section of Virgin Islanders to be appointed by eight different leaders in business education, labor, and government, including the heads of the Executive, Legislative, and Judicial branches of the V.I. Government.

Despite this effort of pluralism, Section 2(c) (5) insults the members providing that:

“the Chairperson of the Commission shall be the Secretary of Interior or his or her designee and shall serve as an ex-officio member of the Commission and shall vote only in the case of a tie.”

We do not need an even-numbered Commission. We also do not need the Secretary of Interior or her designee to be the Chairperson of such a Commission. This is blatant colonial control and is a giant step to the rear for the Virgin Islands, the United States, and the Decolonization Committee of the United Nations.

It also exposes the insensitivity of the V.I. Delegate to the impact of such an offensive provision. This is especially true because the Amendment also provides in Section 2(b) for the qualifications of the CFO candidates, and requires that the appointment be made by the top community leaders listed in Section 2(c) (1). With such specific controls listed in the Amendment, it is insulting to Virgin Islanders to put this additional obstacle to our autonomy by suggesting that we are not qualified to select our own chairperson. Accordingly, this provision should also be rejected by your committee.

#### CONCLUSION

The foregoing objections to this CFO legislation do not reflect all the opposition or all the options to the passage of this bill. Indeed, one local legislative option proposed by Senator Lorraine Berry is known as the II financial review board bill” which will also negate any need for H.R. 3589.

I call on your committee to take note of the voluntary financial restraint imposed by the administration of Gov Charles W. Turnbull. These include the denial of salary increases, the imposition of a moratorium on contract negotiations, and the reduction of the overall government budget. While we have our differences with the administration, we do not believe that these differences should blind us from the heavy-handed and unilateral approach of the V.I. Delegate to alter the political status of the Virgin Islands by such an offensive piece of legislation, and in such an unprecedented manner.

The local autonomy, including financial control, which has been granted to the Virgin Islands is a committed obligation of the United States under agreement with the United Nations. Such a legal commitment of the United States cannot be withdrawn by such routine legislation. The exercise of that grant of autonomy by the Virgin Islands Government does not mean that it must be free from error or deficit.

Indeed, an error or deficit does not justify reversion to colonialism. As with everyone else, we are subject to make mistakes, and we are also entitled to correct our own mistakes. Thus, this attempt by the VI Delegate to impose such a substantial reduction in Executive and Legislative authority, under the guise of a temporary measure, is totally inappropriate and untimely.

Although it is with reluctance that I find it necessary to oppose Delegate Christiansen, I must do so due to her failure to understand the consequences of her actions. It is unfortunate that she has not only disregarded our objections, but also has made public statements claiming the support of Committee Chairman Richard W. Pombo, whom she quotes as saying that he “has gone out on a limb for members before.” She also seems to have no concern for the potential disruption of domestic tranquility, as reflected in a recent Newspaper headline stating “CFO Changes Fuel Political Fire”. (Attached are pages 1 and 2 of the Virgin Islands Daily News for Tuesday, June 8, 2004.)

It is dearly objectionable for the Delegate to be claiming committee support for her Amendment when the arguments of the opposition have not yet been presented. Moreover, she has been attempting to block our testimony and that of Democratic National Committeeman Derek Hodge while facilitating the testimony of her supporters, including nonVirgin Islanders. If this bill is given a fair hearing, there

should be no need for the committee chairman to have to go "out on a limb." Any objective review of the consequences of H.R. 3589 should result in its rejection.

Accordingly, on behalf of the members of the Central Labor Council, I close by respectfully calling on your committee to defeat this Amendment In The Nature of a Substitute to H.R. 3589, and thereby maintain the previously vested autonomy of all three branches of the Government of the U.S. Virgin Islands.

NOTE: An attachment to Mr. Morales' statement has been retained in the Committee's official files.

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[A statement submitted for the record by Hon. Vargrave A. Richards, Lieutenant Governor, U.S. Virgin Islands, follows:]

**Statement of The Honorable Vargrave A. Richards,  
Lieutenant Governor, United States Virgin Islands**

Mr. Chairman and members of the House Committee on Resources, I respectfully submit the following written testimony to be read into the record on behalf of the Government of the Virgin Islands and Governor Charles W. Turnbull, Ph.D., on the proposal for the establishment of an unelected Chief Financial Officer for the Government of the United States Virgin Islands

**INTRODUCTION**

It was the intent of the framers of the Organic Act, first in 1936, then Revised in 1954 that the Territory would become fully self-governing. This has been reflected in several provisions of the Act, including the right of the Territory to elect its own Governor and establish its own local courts.

Mr. Chairman and other distinguished members, H.R. 3589, represents a negative departure from the original intent of the Organic Act and thus conflicts with the principles of self-government that Virgin Islanders have fought for over many generations.

Given the critical nature of the proposed position of a CFO, who has the potential to impact the overall financial operations of the government and the very lives of Virgin Islanders, it severely hampers and impedes the democratic process of allowing the people of the Virgin Islands to participate in the choice of such an important position as CFO.

The selection of a CFO has the very real potential to create a constitutional crisis in the Territory. It is the function of the Governor to set all of the priorities of the government. This includes the financial priorities. The possibility exists that the Governor could set one priority and the CFO could set another priority. Who then would have the overriding authority to resolve the conflict? Should the Secretary of Interior be required to intervene?

Pursuant to the provisions of H.R. 3589, the statutory authority of the Governor of the Virgin Islands would be eroded, which directly contradicts the express intent of the Revised Act as amended.

Mr. Chairman, and Honorable members, over the years we have undoubtedly suffered as a result of both natural and manmade calamities, in addition negative global forces. Nonetheless, for the first time our Administration has taken the necessary steps to impose fiscal and financial discipline on the operations of the government.

This bill, however, retards the very process that we have embarked upon. Therefore, Mr. Chairman and Honorable members, I strongly urge this Committee to reject the provisions of H.R. 3589 in their entirety.

**The Bill**

H.R. 3589 submitted by Delegate to Congress Donna Christensen eliminates for five years the position of the Director of the Office of Management and Budget and substitutes a Chief Financial Officer (CFO).

The Governor appoints the CFO, with the advice and consent of the Legislature from the names from a list provided by a Commission. If the Legislature does not confirm the person appointed by the Governor, the Governor can name an acting CFO, but if the Legislature does not confirm someone within 180 days from the date of the Act, the Secretary of the Interior appoints the CFO.

The CFO performs all the functions of the OMB Director, and the Department of Finance and Bureau of Internal Revenue must fully cooperate and provide all documents requested. In addition to the usual functions of the OMB, the CFO must also produce quarterly financial reports for the public, certify annual spending limits of the annual budget and whether it is balanced, and develop standards for financial management for each agency.

During this five year period, the OMB director serves as Deputy CFO at the pleasure of the CFO. Under the bill, the CFO may only be removed for cause, but the bill does not state by whom.

The Commission which nominates three candidates for the CFO position consists of eight members: one appointed by the Governor, one by the President of the Legislature; one Government employee by the Central Labor Council; one by the St. Thomas/St. John Chamber of Commerce; one by the St. Croix Chamber of Commerce; one by the President of the University of the Virgin Islands; one by the Chief Judge of the Territorial Court; one resident of St. John appointed by the at large Senator from St. John. The Secretary of the Interior is the Chairperson of the Committee, but only votes in case of a tie. Members cannot be Government employees or have served in an unclassified, exempt or policy-making position for the past ten years.

If the Commission does not report its recommendations within 60 days, the Secretary of the Interior makes the recommendations to the Governor.

In addition, within one year, the Secretary of the Interior must provide a financial management system, including hardware and software to the Virgin Islands Government. No funding source is identified.

#### *Self-Governance and Democratic Principles*

With all due respect to the good intentions of the sponsor, as stated before, I must respectfully and vigorously oppose the provisions of H.R. 3589 presently the Committee. For reasons detailed below, the bill addresses neither the causes for the financial challenges of the Territory nor the solution. I urge the committee to vote against the bill.

#### *Undemocratic*

The bill runs afoul of the most fundamental principles of our democracy. The Governor of the Virgin Islands is elected directly by all of the people in the Territory. The Virgin Islands Senators are also elected directly by the people. The Governor appoints his cabinet, including the Director of the Office of Management and Budget, with the advice and consent of the Senate. Thus, the OMB director can be said to reflect the will of the people.

H.R. 3589 proposes to replace the OMB director with one appointed by a committee some of whom are not elected to office, but merely representatives of certain groups. In addition, the Secretary of the Interior has the tie-breaking vote on the Committee.

#### *A Step Backwards*

H.R. 3589 represents a step backward in the relations between the United States Government and the Territory. Since 1917 when the Territory was acquired from Denmark, the Territory has been given increasing responsibility for its own functions and the federal government has retained less oversight. Through amendments to the Organic Act, the Territory has progressed from oversight from the Department of the Navy, and Governors appointed by the Secretary of the Interior, to Governors elected by Virgin Islanders.

The movement toward self-government has been a slow and hard fought struggle for the people of the Virgin Islands. It has been a movement in the right direction with more responsibility for the Territory and less for the federal government. The bill before the committee reverses that trend, and is an affront to all those who have worked hard to achieve the current status.

It bears noting that the people of the Virgin Islands elected their own Governor for the first time in 1970, a mere 34 years ago. Prior to that time, Governors were appointed by the federal government. In historical terms, this is a very young government.

#### *Presumptions*

The bill is founded on several assumptions that place the government of the Virgin Islands in a precarious position and at a decided regressive disadvantage. By taking away from the Governor and Senate the duty to appoint the OMB Director, H.R. 3589 presumes that the Virgin Islands is unwilling and incapable of managing its financial affairs, and that the financial condition is so egregious that such a draconian step is warranted. It also presumes that the financial challenges will be addressed by merely substituting the OMB director, without tackling the other institutions in which changes are needed.

#### *Willingness and Capability*

The Territory is not, as H.R. 3589, the bill presumes, unwilling to address its financial challenges. The Territory has entered into a Memorandum of Understanding

with the Secretary of the Interior and has charted the course to fiscal responsibility. Additional evidence of progress is the decrease in the number of Government employees.

#### *Financial Condition*

H.R. 3589 presumes that the financial condition of the Territory is so precarious that only a new method of appointing the OMB director can address the problem.

The Territory is not bankrupt. It meets its obligations as they come due. It pays its employees and vendors. Certainly, it carries an enormous debt, but this is not unusual for federal or local governments. Debt can be managed as has been demonstrated by other governments, as well as the government of the Virgin Islands.

- Forty-eight states are facing declining revenues.
- Kentucky had a \$365 million shortfall for 2003-2004.
- California faced a \$36 billion dollar deficit.
- Indiana will spend \$1 billion dollars more than income this year.

The Virgin Islands financial condition is far less severe than many states, and not one has replaced its state's budget director with a nonelected, non-appointed financial officer

H.R. 3589 appears to be an extreme measure in light of the circumstances.

#### *Senate Election*

The Territory finds itself in its present financial condition in part because of the structure of the election system of the Virgin Islands requires meaningful legislative change by way of a referendum of the people. Another significant avenue for change can be orchestrated through Congressional support of sub-districting.

Currently, the seven highest vote getters are elected to the senate from St. Croix, seven from St. Thomas, and one is elected by the voters of all four islands but must be a resident of St. John. As a result, the Senators owe allegiance to their island, but not to any specific area or district within it, like U.S. Congressman. As a result, there is constant pressure from special interest groups and votes for appropriations for which there is no identifiable funding source. There is a structural impediment to the sound finances of the Territory and meaningful change will not occur until this issue is addressed.

#### *Unique Challenges for Territory*

The Territory's financial condition must be viewed in the context of its unique challenges. All public services must be performed for a relatively small population spread over four islands in varying proximity. The public health challenge is enormous.

Nowhere in the states would a county of 45,000 people be expected to provide public health for all of its population in one health center for emergency and long-term health care. Or to provide power and water and Government services on four islands, as well as comply with federal mandates and provide state and municipal government.

#### *Summary*

H.R. 3589 as submitted does not address the fundamental institutional challenges facing the Territory. It is a step in the wrong direction, toward more federal intervention and less self determination. The Virgin Islands can and will meet its financial challenges without H.R. 3589.

[NOTE: Attachments to Governor Richards' statement have been retained in the Committee's official files.]

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[A letter submitted for the record by Stephanie Scott-Williams, Former Virgin Islands Senator, follows:]

JUNE 14, 2004

Richard W. Pombo, Chairman  
House Resources Committee  
1324 Longworth House Office Building  
Washington, D. C. 20515

Chairman Pombo:

I am Stephanie Scott-Williams, former Virgin Islands Senator, a grandmother of 8, and a Virgin Islander by commitment. I submit the following in testimony regarding Virgin Islands Fiscal Responsibility Act, H.R. 3589.

The following questions must be answered honestly in order for the People of the Virgin Islands to begin to HEAL, they are:

1. What is the total debt of the VI Government;
2. What is owed to whom, what taxes are committed to which debts;
3. What is the VI's average daily, weekly, monthly, annual revenue;
4. What is the VI's average daily, weekly, monthly, annual expenditure;
5. What are the consequences if the VI fails to institute a CFO;
6. Will or are present and future federal monies affected?

Although we all agree that we want fiscal responsibility, we are divided on how to achieve that goal. The People of the VI are divided on the issue of a CFO be it imposed federally through the Dept. of the Interior or a CFO created by the VI Government. Some see a federally imposed CFO as colonial. How colonial can we get, we are taking the federal money. A CFO and a commission created by the governor and the legislature is only creating another level of bureaucracy, problems and conditions that got us where we are today. We have no faith in what the governor tells us. In one of the state of the territory addresses he stated that he saved the VI from a federal take over? When was this? Why didn't we know? What concessions were made in our absence?

We need HELP in getting the truth from our governor and the senators as to the real debt of the VI. How many great grand children must I have in order to pay these debts? We're forever floating bonds for this and for that. In fact it seems as if we're floating bonds for the same thing over and over again. There is NO trickle down to the PEOPLE.

The roads are worse, the school books are still obsolete, police, teachers and most government employees must work a second job in order to survive in this tourist economy. The senators continue to propose and pass more taxation. We do not have much faith in the present, electronic method of voting. We do not get answers to questions. "They" make it virtually impossible to pursue your right to know. The elected representatives do not respect the electorate. We are frustrated!

We really do not want to have "outsiders" come in and clean up our house but we have procrastinated and failed to put things in order. The senators and the governor play table tennis with legislation and appropriations, by their vetoes and overrides. Both branches of government are flirting with fiscal responsibility.

A CFO must be appointed by the Dept. of Interior. The qualified candidate could or preferably be from the VI. We have qualified people in and from the VI who should and could do the job of a CFO if allowed to do the job honestly. A federally appointed CFO allows the CFO to function without intimidation or fear of being fired by the governor.

The CFO must replace the Director of OMB. The CFO reports to the Dept. of Interior, the Governor, Legislature and the People. The CFO works directly with the commissioner of finance and the agencies; determining priorities, needs, revenue generating ability (if any), developing a working plan setting specific goals to bring each agency into fiscal compliance and responsibility. The Virgin Islands will be well on its way to fiscal recovery and healing of broken communities.

First, we MUST know how much money is needed to operate this government efficiently. Conduct a tax study to determine if the present taxes are sufficient or necessary, is there duplication? Once this is established, agencies develop an immediate, short term and long-term plans and through legislation create laws for continued economic growth and development of the Virgin Islands.

It is critically important that we have honest people, willing to do public service who will work towards Improving the Quality, Productivity and Delivery of Government Services.

RESPECTFULLY,  
STEPHANIE SCOTT-WILLIAMS

Mr. FLAKE. Does the member from New Mexico have an opening statement?

Mr. TOM UDALL. No, I don't. Thank you.

Mr. FLAKE. Thank you. With that, I would like to welcome our first witness to today's hearing, the Delegate from the District of Columbia, Ms. Eleanor Holmes Norton. Ms. Norton has had a lot of experience, obviously, in working through the District's financial

hardships and I am sure she will offer some good insight today on this legislation. Welcome today, and please proceed.

**STATEMENT OF HON. ELEANOR HOLMES NORTON, A  
REPRESENTATIVE IN CONGRESS FROM THE DISTRICT OF  
COLUMBIA**

Ms. NORTON. Thank you very much, Mr. Chairman, Congresswoman Christensen, members of the Committee. I have come at your invitation to discuss the experience of the District of Columbia with a Chief Financial Officer and I would like to submit for the record the CFO organizational chart simply so that you will have some sense in your record of how the office is organized.

H.R. 3589 is entirely the idea of my good colleagues, the territory's Congresswoman. I recognize that every jurisdiction has vast differences and many nuances. While we have spoken, I believe that the effect of the District of Columbia on her has simply been that she was here when the District of Columbia went into insolvency and she saw that the Congresswoman for the District of Columbia had to call not for a CFO, because we had passed that point, but the Congresswoman had to get up in the Congress and call for a Control Board that would be appointed by the President of the United States.

If you think that what the Congresswoman has offered has any pain attached to it, I cannot emphasize enough the pain I had when it became my responsibility to stand in the well of the House before any of my colleagues, because it was my responsibility, when the District of Columbia could no longer borrow because investment houses had declared it to have junk bond status. I believe somebody had to do it, and I did it. Far from having Mayor Barry and the Chair of the Council fight me, ultimately, they were with me so that we—because we all understood what insolvency meant. They no more wanted a Control Board than they wanted to jump off the dome of the Capitol. They had no choice.

What the Congresswoman has offered, I wish we could have had instead of a Control Board. I think what she is trying to do is keep the Virgin Islands from going the way that the District went in 1993 when it became officially insolvent.

Now, the real question is, is the Virgin Islands insolvent? I am not in a position to say whether it is insolvent or not. I have read some of what its own officials have said, and if you get to be a billion dollars in debt, if you have to balance your budget by borrowing, if you use one-time spending remedies, there does come a point in time when people will not lend to you anymore.

If you are not—if you are—the Virgin Islands is like the District in this respect. The Virgin Islands doesn't have a State, so the only place for the Virgin Islands to come would be to the Congress of the United States. That is where we had to come. The Control Board was appointed by the President of the United States. Fortunately, he took my recommendations. He did not take the recommendations of the Mayor and the City Council. But he did take my recommendations. They were District residents.

If we had had the model that is before the Committee today, we would have breathed a sigh of relief and embraced it. But there was no such model at the time in the Federal sector for us to pur-

sue. The model is almost exactly, as I understand it, except for one big difference then, the Mayor appointed the CFO, but the Control Board had to ratify that appointment, and he appointed the CFO with the advice and consent of the legislature.

The sovereignty of the District of Columbia was compromised by the fact that the Control Board, unelected officials, had to, in fact, ratify the Mayor's appointment. They did, in fact, ratify his appointment. But as I understand the Congresswoman's legislation, that is not what has to happen here. The sovereignty of the District of Columbia and their sovereign officials are left exactly as they are today. They appoint the CFO. They get to do something that we didn't get to do. They get to have all three branches of government involved in a search committee so that everybody locally has a say in who that CFO shall be.

Their CFO is temporary. Our CFO has been so successful that the Council of the District of Columbia, which guards its home rule and guards its self-government like life dependent on it, has passed a law saying that the CFO shall have a term. There was no term in the CFO law. The CFO could be dismissed for cause with two-thirds of the Council. Now the Council wants the CFO, and it has passed a law to that effect, to have a term not concomitant with the term of the Mayor.

The great difference in what I understand our government to have had and the Virgin Islands to have today is that there is no—there was no central figure for management accountability in our system. That is what a CFO is. In States, that figure is often an elected person. In New York, for example, he is the Controller and he gets to say and do things on finances that no other elected officials can do. Now, that is a truly strong figure, because that person isn't appointed by the executive. That person comes from the people. This is, of course, not nearly as severe as that.

You do not have a financial management system if there is not a central figure who runs that system, all you have is a bunch of folks who run around. In our system, there was the Office of Finance and Revenue. There was the Budget Director. There was the Treasurer. All of those people are now under the office of the CFO, appointed by the CFO. Of course, the CFO is appointed by the Mayor. So obviously, the CFO is not going to appoint a Treasurer or a Finance and Revenue Director without the Mayor himself essentially ratifying that appointment. Again, what the CFO does is directly accountable to the elected Mayor, as I understand the Congresswoman's bill would have for the Virgin Islands, as well.

The most important thing that the CFO has done is to keep bills and actions that require over-spending from moving forward, and how does he do it? He doesn't have policy authority. What he does is to analyze bills and analyze actions and then come back to the elected officials and say that, under the law, you would be over-spending if you were to enact this bill. And people will put all kinds of bills in without thinking a thing about what it will cost. And he will come back and say, if you do this, there is not the revenue to cover it. That sends people back to deciding either not to do it or to reduce the cost of it. Any action that is taken, he must look at to see if there is revenue to cover it.



Let me just quickly go down and indicate the kinds of things he actually does. It is he that has control over accounting for the \$5 billion budget we have here, collecting and controlling that budget. One of the most important things he does, the fiscal year will not be 2 months old before the CFO will say, there is some overspending in the police department, in X department, in Y department. That is no cause for panic. It just tells you even before the first quarter is out that various departments are spending beyond their budget. That is the kind of fair warning they want so that they can reel themselves back in before they get to the end of the fiscal year and have a crisis on their hands.

He monitors the budget performance throughout the fiscal year, meeting and talking with people to help them keep their budget intact. He collects the receipts and payments. He develops the fiscal impact statements so that we understand the fiscal responsibility we take on when we do any action, whether or not it is labeled a financial action. And, of course, he hires the person who does the comprehensive annual audit. Again, an outside auditor is absolutely necessary for any system, whether it is a business or a bill.

What has been the effect of having a CFO? Seven consecutive balanced budgets. This is from a city that was insolvent, bankrupt, unable to borrow, had to come to the Congress of the United States if it wanted to borrow in order to go through the Treasurer of the United States. Our bond rating is A-2. This is the first time in the home rule history of the District—we got home rule in 1974—that we have received an A rating from all three major rating agencies.

The District has accomplished a \$1.4 billion turnaround in its general fund balance. It maintains \$254 million in cash, emergency and contingency reserves, and \$50 million in operating cash reserves, and that is the largest cash reserve as a percentage of budget nationwide in the United States and you do not hear our Council or our Mayor screaming about it. It is what got us the AA rating, the A-2 rating, and let me say what that gets you. It means when you borrow money, you don't have to pay the kind of interest that obviously the Virgin Islands and people with bond ratings that are not the best have to pay, and that comes from the taxpayers, as well.


Finally, Mr. Chairman, let me say many States and cities do in a much more stringent manner what a CFO does. I indicated that he can be independently elected. He is almost always independent. Even without a financial crisis, any operation, public or private, must have a CFO. There is no business, even a small business if it has as many as, let us say, ten employees, that does not have a CFO today.

The CFO is as necessary as the CEO. No corporation would think of organizing without having a CFO at its center. If you do not have a CFO, you do not have a financial management system. You simply have a lot of folks running around trying to manage whatever they can. I think we would all agree, if that is no way to run a business, it is certainly no way to run a government.


Thank you very much, Mr. Chairman.

[The organizational chart submitted for the record by Ms. Norton follows:]

DC HOME
DC GUIDE
RESIDENTS
BUSINESS
VISITORS
DC GOVERNMENT



**Office of the Chief Financial Officer**



**Dr. Natwar M. Gandhi**  
DC Chief Financial Officer

**OCFO HOME**

**About the OCFO**  
[Agency Directory](#)  
[CFO's Letter](#)  
[CFO's Biography](#)  
[How to Reach Us](#)  
[Organizational Chart](#)  
[Strategic Plan](#)

**SERVICES**

**INFORMATION**

**ONLINE SERVICE REQUESTS**

### CFO Organizational Chart

**DC Chief Financial Officer**  
 Dr. Natwar M. Gandhi

Chief of Staff  
 Lucille Dickinson

<b>EXECUTIVE SUPPORT</b> General Counsel Jerry Malone Integrity and Oversight Executive Director Ben Lorigo Agency CIO Maynard Gambrell Agency CFO Paul Lundquist Management & Administration Executive Director Jo Ann Smoak Communications Director Clarice Nassif Ransom	<b>DEPUTY CFOs</b> Budget & Planning Bert Molina Finance & Treasury N. Anthony Calhoun Financial Operations & Systems Anthony F. Pompa Revenue Analysis Julia Friedman Tax & Revenue Daniel L. Black, Jr.	<b>ASSOCIATE CFOs</b> Economic Development & Regulation Henry Mosley Government Direction & Operations Barbara Jumper Government Services Pamela Graham Human Support Services Deloras Shepherd Public Safety & Justice Steward Beckham	<b>INDEPENDENT AGENCIES CFOs</b> DC Lottery William H. Robin DC Public Schools John D. Mussi University of the District of Columbia Myles Mutnick
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Government of the District of Columbia  
 Citywide Call Center : (202) 727-1000  
 TTY/TDD Directory

Telephone Directory by Topic | Agencies  
 | DC Council | Search | Elected  
 Officials  
 Feedback | Translations |  
 Accessibility | Privacy & Security |  
 Terms & Conditions

John A. Wilson Building  
 1350 Pennsylvania Ave  
 Washington, DC 20004

Mr. FLAKE. I thank the Congresswoman from the District. Any questions from the Republican side?

Mr. REHBERG. Yes, Mr. Chairman. Is the Control Board still in charge of the finances?

Ms. NORTON. No. Indeed, the Control Board went out of existence more than 7 years ago now, largely because the Council and the Mayor, working with the CFO, got the District back on track.

Mr. REHBERG. Was there a sunset provision in the legislation that Congress passed to create the Control Board, or—

Ms. NORTON. Yes. There was—

Mr. REHBERG. OK. So it didn't take a second action of Congress to—

Ms. NORTON. There was a sunset provision, but the Congress was quite ready to spring into action if the District had not become solvent.

Mr. REHBERG. And how long was the Control Board in place?

Ms. NORTON. About 6 years.

Mr. REHBERG. I didn't have the benefit of being here watching the local press. What was the debate that occurred about the self-determination? I mean, there obviously were problems. I would as-

sume that the elected officials said, "Hey, why even be an elected official if you are just going to have somebody else oversee you?" Were there conflicts in philosophy of how the Control Board was acting and how the Mayor and the City Councilperson would have liked to have had the budget managed?

Ms. NORTON. The second Control Board, as I call it, had Alice Rivlin, the founding chair of the CBO here, a high-level financial official herself who happens to be a D.C. resident. The Control Board worked very well with her. The first Control Board was under Andrew Brimmer, a very distinguished economist.

The Mayor—I was able, working with Mayor Barry, to get the District's sovereignty left in place even with a Control Board. Essentially, he was able to continue to run the government and if—but they did have the power to step in if, in fact, there was overspending.

The Mayor made a huge mistake. Mayor Barry made a huge mistake. He got into public fights with Andrew Brimmer. This is after working with Tom Davis, my good colleague. Mr. Flake and I serve on the same committee. He and I worked so that the District's sovereignty was left in place. Then the Mayor, who is a consummate politician, had open fights with Mr. Brimmer, a very strong Chairman. The District's budget, unlike the budget of the Virgin Islands, has to come here even though it is all raised, or virtually all raised in the District of Columbia. When the appropriators saw that Barry was fighting with Brimmer, they gradually took much of the District's sovereignty, not through the authorization process but through appropriation riders.

Mr. REHBERG. One last quick question, and I apologize for not knowing your budget, but do you have a balanced budget requirement? Is there within your charter or whatever you—

Ms. NORTON. You bet.

Mr. REHBERG. It is a balanced budget requirement?

Ms. NORTON. And it was then, but like the Virgin Islands, with whatever you do to pass budgets, they were, in fact, unbalanced budgets all along and you can't have an unbalanced budget in the District of Columbia now, not—

Mr. REHBERG. So there wasn't adequate enforcement, which is what some—

Ms. NORTON. And what is happening very often in the States today is you see people overspending and then carrying over into the next year what amount to unbalanced budgets. So there was a balanced budget just as every State is required to have a balanced budget, but with smoke and mirrors, clearly the budget wasn't balanced, and when it went down, it went down very quickly.

By the way, the investment houses won't come and say, you know, we want to give you a year's notice. All of a sudden, they will say, you can't borrow anymore.

Mr. REHBERG. Thank you. Questions from this side? Mr. Faleomavaega?

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I offer my personal welcome to Congressman Norton to our Committee. It is always an absolute privilege for me to work with Congresswoman Norton over a series of issues, not only affecting her District as

well as the insular areas. I want to thank you for your insights about this proposed legislation that our colleague has presented before the Committee, Congresswoman Christensen.

Congresswoman Norton, I think you probably are very aware and quite sensitive to the concept of having elected government and we are creating an office who is not an elected official. The question that comes to my mind always is how do you establish a balance of where a non-elected person has too much authority over the privileges as given to executive authority, that which in particular would be the Governor. I remember this was always the issue among the insular areas in dealing also with the Department of the Interior, whether or not the Comptroller of the Interior Department should have oversight responsibility once a Governor is elected among the insular areas, whether it be Guam, American Samoa, and I suppose here the Virgin Islands.

You did make a very excellent point here, the fact that insular areas do have financial problems, but will this be a cure to solve the financial problems, whether it be the Virgin Islands or in American Samoa?

I wanted to ask again, and my apologies if I did not get a clear picture of what you are trying to share with us this morning, does the Chief Financial Officer as proposed in our colleague's bill, does it complement the concerns that you have as you have had to deal with the financial problems also with the District of Columbia?

I remember the former reserve Member of the Board Brimmer, Mr. Brimmer, who was an excellent—I think this is probably one of the reasons that has helped a lot to the Control Board, that you had people of tremendous caliber and expertise in dealing with finances, which I think has been a real help for the District.

I wanted to ask you if establishing a Chief Financial Officer, will it help the Virgin Islands in resolving some of the serious financial problems as it is true with other insular areas?

Ms. NORTON. I hope I haven't confused anybody by talking about the Control Board because I do want you to know that—I want to emphasize, and I appreciate your question because it allows me to clarify this. I want to emphasize the difference between the original CFO we had and the CFO we have now.

The original CFO was, in fact, appointed by the Mayor, and as I indicated, he had considerable sovereignty that he frittered away even then. But it was appointed by the Mayor with the advice of the legislature. The CFO we have now is appointed by the Mayor with the advice of the legislature, which is to say our Council, even though there is no longer a Control Board and nobody on our Council would think of operating without a CFO now.

I don't mean to say that there aren't jurisdictions that do financial accountability in other ways. I am saying that most jurisdictions have a central figure who is in charge of making sure that the budget does not go out of control and that there is not overspending.

The CFO does not have policy, and I emphasize this, he does not have policy jurisdiction, so that if you overspend, for example, because you put in a bill for which there is no revenue, all the CFO can do is to go back and say, we don't have the revenue for that. Then the policymakers, the Council members and the Mayor get to-

gether and decide what to do. He is the monitor. He is who lets you know whether or not overspending will take place.

I want to emphasize this right away. We wish we had had this opportunity. What the Congresswoman's bill says is that you, we in the Congress, have absolutely nothing to do with this official. The Governor appoints the official. The legislature has to approve the official. The Congress doesn't have anything to say about that. Would that that were the case for the District, the Congress didn't have anything to say about it, just the Control Board that the Congress appointed had everything to say about it.

So this official is no different from the other officials they appoint except that this is somebody who can keep them from overspending.

Now, you raise an important point. Does he, therefore, have more power than an elected official? No, because he can't change the policy. Let me tell you a dirty little secret. There have been control boards where they have put similar kinds of figures in place in New York, in Philadelphia, in Bridgeport. The dirty little secret is that the elected officials welcome the fact that somebody else could say no to overspending. When you have all of these people running at you saying, "We want money," it is very hard for an elected official to say no. And so what elected officials do is drive themselves into bankruptcy, and that may be happening here.

I can tell you that nobody in the District of Columbia would think of operating without a financial management system, and there is no such thing as a financial management system without a CFO, and as long as that CFO is appointed by the elected officials, there is no case to be made that their sovereignty is infringed.

And if I may add, nobody would feel that more than the Congresswoman from the District of Columbia. We wish we had what you have, Mr. Delegate, and what the Virgin Islands has. Your budgets do not come here. We raise \$5 billion in the District of Columbia and we have to come to the Congress of the United States before we can spend a dime.

So if you want to talk about sovereignty, you are talking to a lady who knows how to speak up for sovereignty.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman, and I thank Congresswoman Norton for her comments.

Mrs. CHRISTENSEN. Thank you. I was going to forego questioning. I just have one question. How important, Congresswoman Norton, is the independence of that person and the fact that the Mayor and the City Council made a concerted decision to keep that person independent and removal only for cause? How important is that to the functioning of that office?

Ms. NORTON. His independence goes largely to his truth telling capacity. The fact is that he is the only official, unlike the old treasurer or the person who was head of Finance and Revenue, who essentially isn't inclined to tell the elected officials what they want to hear. His independence is very important if you want to have any credibility with your bond markets, if you want to stop overspending, if you want somebody who is believable, and frankly, if you want somebody who is not threatening, because he can't do

anything. He can only say, you can't spend more than this, and then you can go back and decide what you want to do.

If that is threatening, it may be if you are borrowing at the rate that the Virgin Islands is borrowing, that that is the threat you would rather have than a control board who makes it impossible for you to make decisions as well as to overspend.

Mr. RENZI. [Presiding.] I thank the lady.

The gentlelady from Guam?

Ms. BORDALLO. Thank you, Mr. Chairman. Good morning. If I could just make a few opening statements. I really don't have a question, but very quickly.

I want to state my support for my colleague, Mrs. Christensen, and her efforts to place the Virgin Islands on sound financial footing for the foreseeable future. I commend her for her leadership and her responsible willingness and commitment to tackle the challenges that jeopardize the fiscal health of the government of the Virgin Islands. And I might add, the Virgin Islands are not the only group of islands that are facing financial problems. As a freshman, I look to her for guidance, and likewise, I also hold a great deal of respect for our colleague from the District of Columbia, Ms. Norton.

As delegates, we share many of the same frustrations and challenges in representing our constituencies here in Congress. Our governments share similar challenges. Guam, like the Virgin Islands, continues to struggle with difficult financial conditions, many of which are not of our own making or choosing. In many respects, our territories face unique challenges that are more difficult to resolve than other jurisdictions in the country due to our isolation from the mainland, our non-State status, the lack of resources and tools to manage our finances, and the disproportionate and adverse impact of certain Federal policies.

This latter point, Mr. Chairman, is of major concern to me. Mr. Chairman, by way of just one example, Mrs. Christensen and myself are currently engaged in an all-out effort to secure a long-sought solution to the problems experienced in effectively implementing the Earned Income Tax Credit by our governments. We are hopeful the FSC/ETI bill that is slated to hit the floor sometime, I think this week, will provide an opportunity to resolve this particular matter, which currently stands as an unfunded Federal mandate costing our treasuries millions of dollars each year.

And last, I do want to welcome the leadership of the Government of the Virgin Islands, Governor Turnbull, members of the Legislature who have traveled many miles to be here in the nation's capital to testify, and I look forward to their testimonies. Thank you, Mr. Chairman.

Mr. RENZI. I thank the gentlelady.

Any other questions?

[No response.]

Mr. RENZI. Hearing none, we thank you so very much for your insights.

Mrs. CHRISTENSEN. Thank you, Congresswoman.

Mr. RENZI. Yes, thank you very much.

We call the next panel. Our second panel consists of a witness representing the current administration. I would like to welcome

Nick Pula, the Director of the Office of Insular Affairs at the Department of the Interior. Given Mr. Pula's daily interaction and close connection with the Department, and he has with all the territories over the years, his input should prove valuable.

Mr. Pula, before you sit down, if you don't mind, we will continue with the customary practice of swearing in all witnesses provided under Rule 4(f), so if you would please stand and raise your right hand and repeat after me.

Do you solemnly swear or affirm under the penalty of perjury that the statements made and responses given will be the whole truth and nothing but the truth, so help you, God?

Mr. PULA. I do.

Mr. RENZI. Thank you. Let the record show the witness answered in the affirmative, and you may begin your testimony. Thank you, sir.

**STATEMENT OF NIKOLAO PULA, ACTING DEPUTY ASSISTANT SECRETARY, OFFICE OF INSULAR AFFAIRS, U.S. DEPARTMENT OF THE INTERIOR**

Mr. PULA. Thank you, Mr. Chairman. I respectfully request that my full statement be submitted for the record while I summarize my comments.

Mr. Chairman and members of the Committee on Resources, I am pleased to be here to discuss H.R. 3589, a bill to create the Office of Chief Financial Officer for the Government of the Virgin Islands.

To begin with, compliments are in order for Congresswoman Donna Christensen for the courage she has shown in bringing this issue into focus. The fiscal problems faced by the Virgin Islands are significant, but we all must decide among priorities and make difficult choices. As a self-governing entity, the Government of the Virgin Islands should take action to resolve its fiscal problems.

The issue of self-government is of great concern to the people of the Virgin Islands, but equally so to the Department of the Interior. For many decades, Interior officials have sought to continually increase self-governance for the United States territories. We believe it important that self-government be preserved and that all challenges, including fiscal problems, be fully considered within the local territorial government before turning to outside for help.

H.R. 3589 would establish the Chief Financial Officer, who would take over the duties of the Director of the Virgin Islands Office of Management and Budget. Additionally, the bill would require the Interior Department to purchase for the Virgin Islands a new financial management system, including computer hardware and software.

Congresswoman Christensen states that the CFO will be empowered to oversee and approve all spending and be authorized by law to disapprove items of spending which would send the government into a financial deficit.

Regarding the mandate for Interior to purchase a financial management system, the Department has concerns. As a self-government entity, it is the responsibility of the Virgin Islands to develop its priorities as it knows best and fund its own financial

management system. Of course, the Department could assist as it always has done in the past.

With more specific regard to the CFO provisions of the bill, the revised Organic Act established a government with three branches. Elected by the voters of the Virgin Islands, the Governor heads the executive branch. Virgin Islands law provides that the Director of the Virgin Islands OMB serves at the pleasure of the Governor. This provision ensures that the Director carries out the policies of the Governor.

By giving the duties of the Director to the CFO and setting a 5-year term office, the CFO, no longer beholden to the Governor, will likely have priorities that are not consistent with the Governor's policies. Thus, a CFO will likely conflict with the goals of the system of government established in the revised Organic Act.

Only under extraordinary circumstances would the Department of the Interior suggest that institution of self-government be bypassed to address fiscal concerns. If, however, the Congress determines that the fiscal problems are beyond internal solution by the Government of the Virgin Islands, options are available that have been successfully utilized by others. These options should be analyzed with an eye toward preserving the integrity of the revised Organic Act and to minimize intrusion into local self-government.

One option is to place a balanced budget provision in the government's foundation document, a constitution in the case of a State, or the revised Organic Act in the case of the Virgin Islands. Maryland and Hawaii are examples of jurisdictions that have balanced budget provisions in their respective constitutions. The benefit of a constitutional requirement for a balanced budget is that all decisions are made by the government in question. Self-government remains intact. However, the constitutional requirement must also be enforced.

American Samoa also has a constitutional provision requiring a balanced budget, together with an anti-deficiency statute. However, American Samoa has lacked enforcement with the result that its debt has ballooned for years. Recently, however, that debt was paid down due to the Federal tobacco loan settlement and hurricane insurance payments. Long-term, however, governments can't be run on hope for a windfall. The management culture of State government is as important as the legal requirement. Enforcement is the key.

Still another option is a control board, as was used in Washington, D.C., as eloquently stated by Congresswoman Norton. Under the complex 57-page act, the President appointed a five-member Control Board. The Washington, D.C. Control Board was very successful in achieving balanced budgets. There was a great cost, however, in that self-government was virtually suspended. Nearly every decision of elected city officials could be overridden by the Control Board.

Finally, a third approach proved successful in turning back deficit financing in Palau. Each category of revenue, for example, income taxes, corporate taxes, license fees, et cetera, was analyzed to make sure that it was within the historic 3-year trend line and a total revenue figure was confirmed. Spending was then capped at the confirmed total revenue figure. All decisions and spending



priorities remained with the local government and there was virtually no administrative cost.

Congresswoman Donna Christensen said, "History informs that the necessary political resolve to put measures in place to address these problems is best found and sustained outside of the political process," close quote. If it is determined that that is a problem that can't be remedied within the existing parameters of local government, then solutions are available that can minimize interference with territorial self-government.

In noting these options, we have endeavored to be helpful, to stimulate the discussion. Mr. Chairman, while we laud the proposed legislation's focus on solving the Virgin Islands's fiscal problems, we favor solutions that are developed internally by the Government of the Virgin Islands. Thank you.

Mr. RENZI. I thank the gentleman for your testimony.

[The prepared statement of Mr. Pula follows:]

**Statement of Nikolao Pula, Acting Deputy Assistant Secretary of the  
Interior for Insular Affairs, U.S. Department of the Interior**

Mr. Chairman and Members of the Committee on Resources, I am pleased to appear before you today to discuss H.R. 3589, a bill "to create the Office of Chief Financial Officer of the Government of the Virgin Islands." I am Nikolao Pula, Acting Deputy Assistant Secretary of the Interior for Insular Affairs.

To begin with, compliments are in order for Congresswoman Donna Christensen for the great courage she has shown in bringing into focus the need for a solution to the periodic fiscal crises faced by the Virgin Islands.

The fiscal problems faced by the Virgin Islands are significant. It is difficult for any government to labor under heavy debt. But we all must decide among priorities and make difficult choices. As a self-governing entity, the Government of the Virgin Islands should take action to resolve its fiscal problems.

The issue of self-government is of great concern to the people of the Virgin Islands, but equally so for the Department of the Interior (Department). For many decades, Interior officials has sought to continually increase self-government for the United States territories. We believe it important that self-government be preserved, and that all problems, including fiscal problems, be fully considered within the local territorial government before turning to the outside for help.

H.R. 3589 would establish a Chief Financial Officer (CFO) who would take over the duties of the Director of the Virgin Islands Office of Management and Budget. A seven-member CFO search commission would be appointed, one each, by the following Virgin Islands persons or entities: the Governor, the President of the Legislature, the Central Labor Council, the Chambers of Commerce of St. Thomas-St. John and St. Croix, the President of the University, the Chief Judge of the Territorial Court, and the At-Large Member of the Legislature. Within 60 days, the commission would provide the Governor with three nominees from which he would appoint the CFO with the advice and consent of the Virgin Islands Legislature. If the commission does not provide the requisite list of nominees within 60 days, the Secretary of the Interior would be obligated to do so within a subsequent 30 days. Also, if a CFO has not been appointed and confirmed within 180 days, the Secretary of the Interior would be obligated to appoint an acting CFO. Additionally, the bill would require Interior to purchase for the Virgin Islands a new financial management system, including computer hardware and software.

In accompanying comments on introduction of the H.R. 3589, Congresswoman Christensen states that the "CFO will be empowered to oversee and approve all spending of the government of the Virgin Islands and be authorized by law to disapprove items of spending which would send the government into financial deficit."

Regarding the mandate for Interior to purchase a financial management system in section 3, the Department has concerns. First, the cost of such a system could be considerable and has not been assumed in current budget estimates. Second, the timeline of providing a system within a year appears unrealistic. Third, and most importantly, as a self-government entity, it is the responsibility of the Virgin Islands to develop and fund its own financial management system.

With more specific regard to the CFO provisions of the bill, the Revised Organic Act of the Virgin Islands established a republican form of government with three

branches: legislative, executive and judicial. Elected by the voters of the Virgin Islands, the Governor heads the executive branch. Virgin Islands law provides that the Director of the Virgin Islands OMB serves at the pleasure to the Governor. This provision ensures that the Director carries out the policies of the Governor.

By giving the duties of the Director of the Virgin Islands OMB to the CFO and setting a five-year term of office, the CFO, no longer beholden to the Governor, will likely have priorities that are not consistent with the Governor's policies. Thus, appointment of a CFO under the provisions of H.R. 3589 will likely conflict with the goals of the system of government established in the Revised Organic Act. Only under extraordinary circumstances, would the Department of the Interior suggest that institutions of self-government be bypassed to address fiscal concerns.

If, however, the Congress determines that the fiscal problems are beyond internal solution by the Government of the Virgin Islands, options are available that have been successfully utilized by others. These options should be analyzed with an eye toward preserving the integrity of the Revised Organic Act and to minimize intrusion into local self-government. Before we discuss other possible options, I wish to repeat: the Department of the Interior favors the Virgin Islands' exercise of its self-government prerogatives to solve, internally, any fiscal problems it may have.

One option is to place a balanced budget provision in the government's foundation document: a constitution, in the case of a state; the Revised Organic Act, in the case of the Virgin Islands. There is an important difference between amending a constitution and an organic act. A constitutional amendment for any jurisdiction is given effect by the people of that jurisdiction; an amendment to the Virgin Islands Revised Organic Act would have to be effected by the U.S. Congress, which includes no voting member from the U.S. Virgin Islands.

Maryland and Hawaii are examples of jurisdictions that have balanced budget provisions in their respective constitutions. The benefit of a constitutional requirement for a balanced budget is that all decisions are made by the government in question. Self-government remains intact. However, the constitutional requirement must also be enforced.

American Samoa also has a constitutional provision requiring a balanced budget, together with an antideficiency statute. However, American Samoa has lacked enforcement, with the result that its debt has ballooned for years. Recently, however, the debt was paid down by utilizing the Federal tobacco settlement loan and hurricane insurance payments. Long-term, however, governments cannot be run on a hope for a windfall.

The management culture of a state government is as important as the legal requirement. In examining the experiences of Maryland, Hawaii and American Samoa, we see that a constitutional provision can be either effective or ineffective in dealing with budget issues, depending on whether it is enforced.

Still another option is a control board, as was used in Washington, D.C. to pull it out of its fiscal crisis in the 1990's. To assist Washington, Congress passed Public Law 104-8, the District of Columbia Financial Responsibility and Management Assistance Act of 1995. Under the complex 57-page act, the President appointed the five-member control board. The control board was granted virtually total authority over municipal finances and city government, concentrating on reducing the municipal workforce, paring services and programs, stimulating the economy, taking over of the school system and ordering the new school board of trustees to carry out specific school policies.

The Washington, D.C. control board was very successful in achieving balanced budgets. The city is still financially stable. There was great cost, however, in that self-government was virtually suspended. Nearly every decision of elected city officials could be over-ridden by the control board.

Finally, a third approach proved successful in turning back deficit financing in Palau. An uncomplicated system was implemented through which each category of revenue (e.g., income taxes, corporate taxes, license fees, etc.) was analyzed by an outside entity to make sure that it was within its historic three-year trend line, and a total revenue figure was confirmed by that entity. Spending was then capped at the confirmed total revenue figure. All decisions on spending priorities remained with the local government and there was virtually no administrative cost in implementing this procedure.

Congresswoman Donna Christensen said in a statement accompanying the introduction of H.R. 3589, "... (H)istory informs that the necessary political resolve to put measures in place to address these problems ... is best found and sustained outside of the political process." If it is determined that debt is a problem that cannot be remedied within the existing parameters of local government, then uncomplicated, tested, and realistic solutions are available that can minimize interference with

territorial self-government. In noting these options, we have endeavored to be helpful and stimulate discussion.

Mr. Chairman, while we laud the proposed legislation's focus on solving the Virgin Islands' fiscal management problems, we favor solutions to fiscal problems that are developed internally by the Government of the Virgin Islands.

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Mr. RENZI. I just have one question and we will move to other questions. The Memorandum of Understanding that was signed by the Department of the Interior in 1999 talked about some of the economic struggles that the Virgin Islands were going through, some of the needs for change and reform that needed to take place. Have there been any kind of penalties or any sort of monies that have been held back as a result of accountability issues? Are you aware of any of that, sir?

Mr. PULA. We have not yet held back any penalties toward the Government of the Virgin Islands. We have worked with the Government of the Virgin Islands regarding this MOU that began in 1999. However, it basically was overtaken by events, which was time. A lot of the stuff will focus on, like, budget for 2001, because it began in 1999, and, of course, 9/11 happened and revenue streams didn't come in.

But some things were accomplished, both by the Virgin Islands as well as the Department of the Interior in moving forward. But just to answer your question, no penalties were withheld and I would be happy to provide the Committee with some of these accomplishments that were taken regarding this.

Mr. RENZI. Thank you very much.

Mr. PULA. And just to make another point, this new administration is working currently with the Governor at this time on another MOU because—to basically bring things up to date and to make it current.

Mr. RENZI. Thank you, sir.

Mrs. Christensen?

Mrs. CHRISTENSEN. Thank you. Mr. Pula, could you begin by just telling me what the mandate of the Office of Insular Affairs is?

Mr. PULA. We basically deal with Federal relations with the U.S. territories.

Mrs. CHRISTENSEN. OK. I noted in your statement that you say that, on the financial management system, third and most importantly, it is a self-government agency. It is the responsibility of the Virgin Islands to develop and fund its own financial management system. The fact that the Congress can appropriate funds and direct its use notwithstanding, is that your—I know that the Governor is also requesting financial assistance from the Office of Insular Affairs for the implementation of the financial management system. Is that your position?

Mr. PULA. That is correct, Congresswoman. Part of our mandate basically assists all the territories, and as a matter of fact, in particular with the Virgin Islands, we have discussed helping them with a financial management system. I have been informed by staff that the government is not yet ready. They are going through the process of the current financial systems they have. We have offered to assist and we will remain so. When they are ready, then we can assist them with it.

Mrs. CHRISTENSEN. Are you aware of issues like the compliance agreement from the Department of Education? You were asked if funds had been withheld and so forth. Are you aware of the problems in accounting for finances that the Government of the Virgin Islands has had with other Federal agencies that have, in some cases, either temporarily or permanently resulted in the withholding of funds?

Mr. PULA. Yes, Congresswoman. As a matter of fact, other Inspector Generals of the Department of Education as well as HHS and various other Federal agencies that have programs have met with our Inspector General about 2 years ago and have discussed some of these issues, not only the Virgin Islands, but other territories, as well, because they were—basically, you were going to hold them high-risk for the way they were handling some of the funds.

We have been helping the Government of the Virgin Islands, discussing it with their administration officials, ways to sort of, like, help the situation. And one of the big things that we have done on that front is to bring to current, to make current all the single audits that have been backlogged in the Virgin Islands and that is tied to their financial management system.

Yes, so we are aware and we work with the other Federal officials.

Mrs. CHRISTENSEN. And we applaud, as I did in my opening statement, the fact that the government has complied with the single audit. But the Inspector General has said, and I quote it also, that while some of the technical changes have been made, the substantive systemic changes that would prevent these issues from recurring are not being significantly addressed.

Let me just say, I agree completely—I probably go beyond some of my colleagues at home in supporting self-governance. Are you aware that many Federal agencies are seeking—some have sought already and some more are seeking to take the management of Federal grants outside of the government and place them with a private fiduciary because of the difficulties?

I see what I am doing as trying to keep the government in control of their finances in the face of these kind of assaults on that. The U.S. Department of Health and Human Services has used private fiduciaries. The Department of Education is trying to push it. And I don't support that. Are you aware that the financial management has reached to that point?

Mr. PULA. I am aware that some of these agencies have contacted our office and we have worked with them. One of the things, and I thank the Congresswoman for raising this issue, we have worked—a lot of times when single audits are made, there are a lot of recommendations, a lot of findings that remain outstanding in all the territories. One of the things that we are working on with the USDA in their help with their expertise is to bring all the territorial financial officers as well as auditors and have meetings and tell them how to help internal controls, improve internal controls in each area so that they don't have these continued, recurring—

Mrs. CHRISTENSEN. Has that been done before?

Mr. PULA. It has been done before, but not very successful and not very concentrated. What we are doing now is really bringing

everybody together, share success stories—as a matter of fact, this week in Milwaukee, all the Chief Financial Officers of the territories will be there with our staff and USDA to go over these things. We have even talked to—hoping that people who make audits, like Deloitte Touche, you know, for these areas, before they put down these findings would sit down with the Chief Financial Officers or the people in the territory to make sure that whatever findings and recommendations it makes are relevant, comparable, so that they don't remain outstanding or do not get fixed.

Mrs. CHRISTENSEN. My time is up for the round, but I have another question. I just want to say that in the course of audits, there is an opportunity before the final report is issued for governments or whoever is being audited to respond and show in which ways they have met what has been termed a deficiency. So that already exists.

I just wanted to ask you another question, because you focus a lot on the fact that the CFO takes away some of the authority of the Governor and the Legislature. Under my bill, it is the Governor and not the CFO that submits the annual budget of the Government of the Virgin Islands to the Legislature for approval, and nothing in my bill changes that.

All the CFO does in my bill is certifies that the revenue—certifies the level of revenue that is available for that budget and works with the Governor and the rest of the financial team in preparing and developing the budget, but it is the Governor's budget. Their only priority is to ensure that the budget is balanced, that there are financial management systems in place, that every spending is done within the budget and within the law. So in what way will the CFO likely have duties or have priorities that would be in conflict with that of the Governor or the Legislature?

Mr. PULA. If I understand part of the responsibilities of the Governor could be deeded to the OMB Director would be allocation of funds to different—he has that authority. Now, if the CFO would inherit those authorities for allocation and would allocate something that would be conflicting with what maybe the Governor's policy is, that was sort of like the reason why we said that there may be a conflicting there.

Mrs. CHRISTENSEN. The OMB Director really continues to work with the Governor. The CFO basically certifies that the money is there, that the revenue that has been projected is certifiable, and they lay their job on the line for that, not for any political considerations. So within—I would urge you to just reread it. Within the way my bill is structured, the CFO does not set priorities. They just ensure, certify, that that is within the spending limits.

Mr. PULA. OK.

Mr. RENZI. I thank the gentlelady.

The gentleman from American Samoa?

Mr. FALEOMAVEGA. Thank you, Mr. Chairman, and I want to welcome Mr. Pula before the Committee and certainly thank him for his testimony.

I just wanted to ask just one question of Mr. Pula in terms of the administration's position on the proposed bill. You did express some concerns about the provisions of the bill, but overall, I just

wanted to ask Mr. Pula, will the administration support this proposed bill with taking care of some of the concerns that you raised?

Now, I notice the bill does propose that the Interior Department should provide the logistical software and I don't see any problem with that. Do you see any problem with the administration supporting that effort?

Mr. PULA. In providing—in assisting—

Mr. FALEOMAVAEGA. Yes, software, the computers and—

Mr. PULA. Not necessarily. We have always had a tradition of assisting the territories.

Mr. FALEOMAVAEGA. Yes. You said you expressed concerns with the bottom line. Does the administration support the proposed bill with whatever other things that we can probably work out and the provisions as outlined in the bill?

Mr. PULA. I would say that the administration at this point does not support the bill as written, and we have stated the concern. One of the things is the Secretary of the Interior would not like to be the one to appoint a CFO. The Secretary or the Department would prefer that the Virgin Islands deal with that themselves. And basically, with the careful notion and idea that we don't know better, the Department does, than the people of the Virgin Islands themselves.

Mr. FALEOMAVAEGA. Well, the bill is quite clear. The Secretary of the Interior will not appoint the CFO—

Mr. PULA. If—

Mr. FALEOMAVAEGA. This is the Governor's nomination, subject to legislative approval and for a 5-year term. So I think the intent of the legislation is that this person is a non-political person. All it is is just a certifying officer saying, this is how much money we have and want to make sure the Governor, the Legislature, and the Government of the Virgin Islands know about this and that is it.

But I think what the bill suggests, if possible, if the Department of the Interior could be the facilitator in assisting the Government of the Virgin Islands with the CFO's working to set up a financial management system, overall just to simply provide a more effective mechanism so that the certification and knowing exactly what the finances are of the government and then proceed accordingly.

Mr. PULA. Thank you, Congressman. I think the bill does say that the Governor should appoint, but in the event that nothing happens, then the Secretary of the Interior.

Mr. FALEOMAVAEGA. Right.

Mr. PULA. Well, you know, if the Committee and the Congress decides to have the Secretary do this, then the Secretary will follow through.

Mr. FALEOMAVAEGA. But you would say that the administration is willing to help the effort? I think this is simply the thrust of what Congresswoman Christensen is trying to do, is to be of help, not as a hindrance, in resolving some of the serious financial problems that the Virgin Islands is going through right now.

Mr. PULA. The administration is always willing to work with our territories as well as Congress in looking for ways to improve their situations.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. Thank you.

Mr. RENZI. I thank the gentleman.

The gentlelady from Guam?

Ms. BORDALLO. Thank you, Mr. Chairman. Good morning, Mr. Pula.

Mr. PULA. Good morning, ma'am.

Ms. BORDALLO. It is nice to see you again. In your testimony, Mr. Pula, you stated that only under extraordinary circumstances would the Department of the Interior endorse—let me see here, how did it read—the Department of the Interior suggests that only under extraordinary circumstances would the Department of the Interior suggest that institutions of self-government be bypassed to address fiscal concerns. While I am not sure that I share the view that this bypasses self-government, rather, I see it as a needed complement or a supplement.

But I wanted to hear from you, Mr. Pula, on what may rise to the level of an extraordinary circumstance. When do conditions evolve to the point where you decide to act or where you would be in a position to support Mrs. Christensen's bill?

Mr. PULA. Thank you. I would like to say, Congresswoman, that the Department of the Interior is always willing to listen and work with our leaders in our territories. So it is not a matter of our Department waiting until the situation in the Virgin Islands gets to a point that it collapses. We have been working, we continue to work, and we will continue to listen and work. But with the caveat that we don't want to infringe too much of what we want to say, but we listen to what the territories' leaders say.

Now, I do not venture to be an expert in waiting until certain things are so bad that we react. And like I said, we have always been right there talking to them. I guess if the Governor comes to me and says, "Well, Nick, I throw my hands up. We are done. Maybe see what you can do to help." Well, then I will say, Governor, we will continue to help as we have in the past.

Ms. BORDALLO. Then I have a follow-up question. Is it the Department's position, then, that a cumulative deficit in excess of \$250 million and a cumulative debt obligation in excess of \$1 billion is not extraordinary? Wouldn't this be the time?

Mr. PULA. The Government of the Virgin Islands is working on a local way to try to do this. Like I said, we listen to what their leaders say. The Governor has not come up to us and say, Interior, we can't go any further. We continue to work with them to see what kinds of solutions there are to be able to assist the territory, and the same things happen. In the case of American Samoa as an example, they were fortunate to have tobacco loan settlement which helped bring down their debt and some of the things that they have done. So we look for avenues and ways to help the territories.

Ms. BORDALLO. Thank you very much, but I just want to say for the record that I feel this is an extraordinary circumstance. Thank you, Mr. Chairman.

Mr. RENZI. I thank the gentlelady.

The gentleman from Washington, Mr. Inslee?

Mr. INSLEE. I just want to thank the sponsor of the legislation and yield to her if she had some additional comments.

Mrs. CHRISTENSEN. Thank you. I thank my colleague for yielding. I am basically just going to ask one other question because I am interested in some of the examples that you cited.

In the case of American Samoa, they were able to use some one-time funding, is that correct?

Mr. PULA. Yes, that is correct.

Mrs. CHRISTENSEN. Has the Department assisted them in any structural or systemic changes that would prevent this from recurring?

Mr. PULA. Yes. As a matter of fact, we have an MOU as well with American Samoa and we will continue to work with them to make sure. They have, in 2003, their budget was in the black and we hope that they will continue to do so.

Mrs. CHRISTENSEN. Thank you. I am not completely familiar with the approach taken by Palau that you cite, but it sounds very similar to ours except for the fact that Palau is a Freely Associated State and they don't—Congress doesn't have the opportunity to create legislation for them. Do you think that that was a good approach, an approach where they have an entity that certifies their revenue and that prevents them from spending beyond that certifiable revenue level?

Mr. PULA. Yes, Congresswoman. That approach worked for Palau because all the Department of the Interior was doing at the time was look at the revenues of Palau and look at the trends of the 3-year trend of Palau revenues. And basically, they certify. And all the decisions in the expenditures and what not is totally up to the Palauan people. And so all the Department did was to certify that if they go beyond the trend, then they would say no.

Mrs. CHRISTENSEN. So you are saying that an outside entity in the case of Palau was who certified their budget level and who determined whether they were spending above their spending level? Tell me where you see this being significantly different from what we are trying to institute.

Mr. PULA. The difference with Palau at the time, they were a trust territory. They didn't have an Organic Act where right now there are delineated—

Mrs. CHRISTENSEN. Just in how that entity functions.

Mr. PULA. What do—

Mrs. CHRISTENSEN. As I see it, whatever this outside entity is that looks at the revenue, certifies the revenue, and caps the spending at the level that they can certify, and all of the priority setting is with the local government.

Mr. PULA. That is right.

Mrs. CHRISTENSEN. That is what my CFO would also do, so I don't—you support that, but you don't support the CFO?

Mr. PULA. I don't support the CFO to the extent if it conflicts with the Governor.

Mrs. CHRISTENSEN. The CFO—

Mr. PULA. If it doesn't, then—

Mrs. CHRISTENSEN.—does not set priorities, they just assist, really, the Government of the Virgin Islands by certifying revenue that can reasonably be accounted for. It prevents us from doing the smoke and mirrors type thing that Congresswoman Norton spoke about that many jurisdictions do because they have to have a



balanced budget. We, by Virgin Islands law, must have a balanced budget.

Mr. PULA. Right. Now, just to clarify your question, Congresswoman, if the CFO that is proposed just certifies the amounts, that is fine. In other words, you are saying that the CFO does not have any bearing on making any decision at all?

Mrs. CHRISTENSEN. About going beyond the spending limits, going beyond the spending limits, spending outside of the confines of the law, yes. But in terms of setting the priorities within those budget limits, that is left to the Governor and the Legislature.

Mr. PULA. Perhaps then I was not clear in terms of—because it was not listed in the bill, the responsibilities, particular responsibilities of—

Mrs. CHRISTENSEN. Right. The base bill does not. We intend to submit an amendment in the nature of a substitute and we have circulated that at home, with some of the changes we intend to make.

Mr. FALEOMAVAEGA. To follow up Congresswoman Christensen's question, could you explain what the Interior Department is doing right now in setting up this office in Honolulu? There is some kind of a monitoring system of financial situation dealing with FSM and also Palau and also the Marshalls, because I think we are in a very similar kind of a situation and I was wondering, because this is a concern that I raised with the Interior Department. Aren't you overreaching in telling these Federated States of Micronesia in how to run their financial system? Now, maybe I am wrong, but I would appreciate if you could clarify that.

Exactly what is the Interior Department's intention, this office that we are setting up in Honolulu? As an oversight? Is it similar to the CFO type of operation that we are discussing here this morning?

Mr. PULA. Sure. Congressman, the office in Honolulu is set up through the legislation, the compact legislation for FSM and the Marshalls, which also include Palau. Basically, it is to monitor, based on the fiscal procedures agreement that was in the bill agreed upon by the countries as well as the Federal Government. So basically, their monitoring and compliance and accountability is all laid out in the fiscal procedures agreement included in the legislation.

Mr. FALEOMAVAEGA. But this was proposed by the administration. It was not something initiated by FSM or the Marshalls or Palau, am I correct on that?

Mr. PULA. And the reason—

Mr. RENZI. Last question. Go ahead and answer this and we will finish up.

Mr. PULA. OK. The reasoning for this, Congressman, was in the first compact, there was a lot of concern about a lot of millions of dollars going to these countries without any accountability and the Interior Department didn't have the teeth, so to speak, to monitor because of sovereignty. In the second agreement that was passed, these accountability procedures were put in place and they were agreed upon by these countries.

Mr. RENZI. Thank you, Mr. Pula, and I appreciate your testimony and your insights.

Mr. PULA. Thank you.

Mr. RENZI. We will go ahead and move to the third panel, which consists of representatives of the Government of the Virgin Islands. I would ask The Honorable Charles Turnbull and Senator David Jones to please approach and stand, please. Good morning. Stay standing, please, and raise your right hands.

Please repeat after me, do you solemnly swear or affirm under the penalty of perjury that the statements made and the responses given will be the whole truth and nothing but the truth, so help you, God?

Governor TURNBULL. I do.

Mr. JONES. I do.

Mr. RENZI. Thank you. Let the record show both witnesses responded in the affirmative.

Statements will be limited to 5 minutes. Any other statements that you may have will be included in the record for submittal. I would go ahead and turn now to Governor Turnbull.

**STATEMENT OF HON. CHARLES W. TURNBULL, GOVERNOR,  
UNITED STATES VIRGIN ISLANDS**

Governor TURNBULL. Mr. Chairman and members of the Committee on Resources of the U.S. House of Representatives, I would like to thank you for the opportunity to appear before you and to testify on the proposal for establishment of an unelected Chief Financial Officer for the Government of the United States Virgin Islands. At the outset, I wish to acknowledge the role played by this distinguished Committee and its immediate predecessor, the Committee on Interior and Insular Affairs, in promoting and furthering local self-government in the Virgin Islands.

The evolution of self-government in the Virgin Islands has not come without struggle or sacrifice. With the delegation of increasing authority by the Congress pursuant to the Territorial Clause of the United States Constitution, the Government of the Virgin Islands has evolved over the years into an institution of powers and responsibilities comparable to those of any State in the union. As a result of this evolution and the far-sighted policies of the Federal Government and particularly the progressive policies of the Congress, citizens in the Virgin Islands enjoy a level of liberty and prosperity that is unrivaled anywhere in the Caribbean or the rest of the hemisphere.

Mr. Chairman, this bill which is the subject of this hearing unfortunately is not worthy of the great tradition of this Committee in promoting the highest ideals of representative self-government in the offshore territories of the United States. In an unprecedented effort to reverse course, H.R. 3589 would severely impair the authority of the elected territorial officials and place excessive powers in the hands of a single unelected person who would remain unaccountable to the people and their elected officials in the Virgin Islands for the full 5-year tenure of his or her office.

Mr. Chairman, to put it bluntly, the essence of H.R. 3589, indeed, the bill's fundamental purpose, is to usurp the authority of the Director of the Virgin Islands Office of Management and Budget under the local law. This is how a drastic change would be implemented under the terms of the bill. The CFO would be given the

responsibilities of the Director of the Virgin Islands Office of Management and Budget. Among other powers, he or she would assume the powers of program execution, including the power to withhold appropriated funds and to revise departmental priorities.

If the CFO would impose his own priorities, the Governor would be left with two unworkable choices, either to defer to the CFO's judgment or to attempt to create an impasse with the complicity of the Legislature. There would be no practical way to remove the offending CFO under the terms of H.R. 3589.

If, on the other hand, the CFO were to defer to the Governor on all the policy and programmatic decisions, there would be no reason for having created this office in the first place. Under such circumstances, the bill's only practical effect would be to deny the Governor's right to name his own person to the office, subject to the advice and consent of the Legislature. The undemocratic process for selecting the CFO under the bill undermines the prerogatives and authority of the Governor. More compelling, the exercise of unchecked powers by the unelected CFO accountable to no one would threaten the very existence of the republican form of government bestowed upon us by the revised Organic Act.

After two difficult years following 9/11 and the national recession, we have resumed our march toward fiscal balance and economic stability. Revenues are growing. Spending is coming under control. And the total debt service is manageable.

Two-and-a-half weeks ago, I submitted to the Legislature a balanced budget for Fiscal Year 2005 calling for spending of \$565 million, a reduction of some \$25 million, or approximately 5 percent below spending levels of Fiscal Year 2004. This balanced budget has been accomplished by painstaking review and careful consideration of difficult alternatives by my financial team. The balanced budget now pending before the Legislature restores the Virgin Islands to the path of fiscal responsibility and stability, as we started when I first assumed office in 1999. My administration has completed eight audits, audits for Fiscal Years 1995 through 2002 and we are now in full compliance with this Act.

As a result of all progress in achieving compliance with the Single Audit Act and improving our financial accountability, Wall Street rating agencies have issued investment grade ratings when the Government of the Virgin Islands in recent years sought access to capital markets.

Notwithstanding the difficulties that we have had, we are committed to making tough decisions to bring our budget into balance. We are committed to making the tough decisions to increase the efficiency of our government and to improve the delivery of essential public services to our people. But because progress requires privatization in the face of increasing competition for scarce resources, our Founding Fathers, including Alexander Hamilton who grew up on St. Croix, had faith that these tough decisions would best be made through the political process by the elected leaders of the people whom they serve.

This bill, however, goes in the opposite direction. It would remove the authority to make tough budgetary decisions from the Governor and the Legislature and the elected representatives of the

people and place it in the hands of an unelected official accountable to no one.

We are not facing fiscal insolvency or collapse. There is no fiscal reason to support the abrogation of the Governor's authority under this bill.

In sum, as I stated in my 2004 State of the Territory Address, it is the duty of the elected officials of the Government of the Virgin Islands to exercise appropriate fiscal discipline. We can, we must, and we shall do what has to be done ourselves. Accordingly, in the best and honored traditions of this distinguished Committee, I strongly urge you to reject this bill and the undemocratic premises on which it is based.

Thank you, Mr. Chairman.

Mr. RENZI. Thank you, Governor.

[The prepared statement of Governor Turnbull follows:]

**Statement of The Honorable Charles W. Turnbull,  
Governor of the United States Virgin Islands**

Mr. Chairman and Members of the Committee on Resources of the U.S. House of Representatives, I would like to thank you for the opportunity to appear before you and to testify on the proposal for the establishment of an unelected Chief Financial Officer for the Government of the United States Virgin Islands.

*Introduction: The Long Path Toward Democratic Governance*

At the outset, I wish to acknowledge the role played by this distinguished Committee and its immediate predecessor, the Committee on Interior and Insular Affairs, in promoting and furthering local self-government in the Virgin Islands over the course of our proud history under the American flag since the transfer from Danish sovereignty in 1917. We note the successful effort by this Committee to establish the first Territorial government, independent of Naval Department rule, that came with the enactment of the Virgin Islands Organic Act of 1936. We recognize the work of your forebears in developing the Revised Organic Act of 1954, which reorganized and modernized the Territorial government, created a unicameral legislature to replace the colonial-era municipal councils, and provided for its Constitutional status by abrogating all laws of the United States then in effect that were inconsistent with the Act or its subsequent amendment. The Act intended, in the words of its Congressional authors, to confer "a greater degree of autonomy, economic as well as political, to the people of the Virgin Islands." Effectively, the Revised Organic Act of 1954, as it has been amended from time to time, serves as our local constitution, specifying the powers of the executive, legislative and judicial branches in a republican form of government.

Indeed, the Revised Organic Act has been amended by Congress on several occasions since 1954, each time with the objective of expanding further the autonomy of the Virgin Islands and its powers of local self-government. In 1958, Congress expanded the legislative charter of the Virgin Islands government expressly to include "all rightful subjects of legislation not inconsistent with ... the laws of the United States made applicable to the Virgin Islands." As interpreted by the federal courts, the 1958 amendment "broaden[ed] the legislative power of the Virgin Islands to cover the 'ordinary area of sovereign legislative power' limited only by the provisions of the Revised Organic Act and the laws of the United States made applicable to the Virgin Islands." *Virgo Corp. v. Paiewonsky*, 384 F.2d 569, 579 (3d Cir. 1967).

In 1968, this Committee reported, and Congress enacted, the Elective Governor Act of 1968, authorizing for the first time the popular election of the governor of the Virgin Islands and perfecting the authority of the executive branch within the established framework of our democratic system of government. At the same time, the 1968 statute eliminated the authority of the President of the United States to veto local legislation, thus adding to the representative power of the legislative branch of our government. Similarly, in 1984, Congress set in motion the restructuring of the Virgin Islands judicial system by limiting the jurisdiction of the Federal District Court in the Virgin Islands to "general original jurisdiction in all causes in the Virgin Islands the jurisdiction over which is not then vested by local law in the local courts of the Virgin Islands." 48 U.S.C. § 1612(b). Completing the empowerment of the third branch of the Virgin Islands Government, the 1984 statute conferred upon the Legislature of the Virgin Islands, "the power to vest jurisdic-

tion over local actions exclusively in the local courts.” *Callwood v. Enos*, 230 F.3d 627, 631 (3 Cir. 2000).

The evolution of self-government in the Virgin Islands has not come without struggle or sacrifice. With the delegation of increasing authority by Congress pursuant to the Territorial Clause of the United States Constitution, the Government of the Virgin Islands has evolved over the years into an institution of powers and responsibilities comparable to those of any State in the Union. As a result of this evolution and the far-sighted policies of the federal government, and particularly the progressive policies of the Congress, citizens in the United States Virgin Islands enjoy a level of liberty and prosperity that is unrivaled anywhere in the Caribbean or the rest of this hemisphere. There are many heroes to be recognized who fought valiantly on our behalf in this struggle and who helped create the conditions of liberty and prosperity, both in the Territory as well as here in Washington, D.C. Indeed, many of them served on this distinguished Committee, and for that I express the gratitude of all Virgin Islanders.

Mr. Chairman, the bill, which is the subject of this hearing, unfortunately is not worthy of the great tradition of this Committee in promoting the highest ideals of representative self-government in the off-shore territories of the United States.

#### *An Overview of H.R. 3589*

Mr. Chairman and members of this distinguished Committee, the U.S. Constitution, in Article IV, Section 4, requires the United States to “guarantee to every State in the Union a Republican Form of Government. ...” Under the leadership of this Committee and its predecessors, Congress, as earlier discussed, has sought to guarantee to the U.S. Virgin Islands a republican form of government, following the model established for the several States. Our achievements on the path to self-governance have been accomplished through the wise exercise of Congress’s plenary powers over unincorporated Territories under the Territorial Clause, as set forth in Article IV, Section 3, paragraph 2 of the Constitution of the United States, and through legislation implemented at the local level pursuant to such delegated powers.

In an ill-considered effort—unprecedented in Virgin Islands history—to reverse course, H.R. 3589, the bill before you today, would severely impair the authority of elected Territorial officials, and place excessive power in the hands of a single unelected person who would remain unaccountable to the people and their elected officials in the Virgin Islands for the full five-year tenure of his or her term of office. If a republican form of government places limited powers in the hands of elected officials acting on behalf of the electorate, the form of government prescribed by the terms of H.R. 3589 would create conditions leading to the opposite result. Under the bill, a single newly established official, the so-called Chief Financial Officer, or CFO, would seize operational control over the executive branch of the Government of the Virgin Islands. Unelected and unaccountable to anyone, this official could be removed from office only for cause—a term usually associated with malfeasance in office.

Under the plain terms of H.R. 3589, the CFO of the Virgin Islands would be accorded extraordinary power for a five-year period without the checks and balances traditionally provided in a republican form of government. Given this fact, this Committee, as well as the electorate of the Virgin Islands, will be most interested to learn about the precise nature of the extraordinary powers that would be removed from representative government and transferred to the independent CFO. With your permission, I will now discuss those powers, and demonstrate how abuse of office could easily occur, without any recourse or remedy available to the Territory’s elected officials, or to the people.

#### *The CFO’s Unprecedented Powers*

Under the terms of H.R. 3589, the CFO would assume the authority and duties of the Director of the Virgin Islands Office of Management and Budget (VIOMB), a person who, under current law, is nominated by the Governor and approved by the Legislature. The Director of VIOMB has substantial power, not only to develop Territorial policies through the budget process, but to control spending and to modify legislative appropriations through the allotment process. In this respect, the Director of VIOMB has power that Congress has denied the President under the Congressional Budget Act. The CFO would also prepare certain financial reports, certify certain financial performance standards, and monitor certain financial operations. These latter functions are either currently being competently performed, or could be easily implemented, preferably with technical assistance from the Office of Insular Affairs of the U.S. Department of the Interior (OIA), whose statutory mandate already includes assistance for such functions—assistance which we have pre-

viously requested from OIA. Indeed, H.R. 3589 would require the Secretary of the Interior to “provide a financial management system, including appropriate computer hardware and software, to the Government of the Virgin Islands.” On this point, we can agree: our financial management technology needs to be updated; but it does not follow that the unrequested imposition of an unaccountable CFO should be a precondition to such assistance.

Mr. Chairman, to put it bluntly, the essence of H.R. 3589—indeed, the bill’s fundamental purpose—is to usurp the authority of the Director of the VIOMB under local law, and to place such authority, under Federal law, in the hands of an official who is neither accountable to the Governor, the Legislature, nor to the people of the Virgin Islands. This is how such drastic changes would be implemented under the terms of the bill. The CFO would be given the responsibilities of the Director of the VIOMB, as set forth in Section 22 of Title 2, Virgin Islands Code. Among other powers, he or she would assume the powers of program execution, as set forth in section 26(c) of Title 2, Virgin Islands Code, including the power to withhold appropriated funds and to revise departmental priorities. In short, the CFO would assume overall responsibility for the functions of the Virgin Islands Office of Management and Budget, as described in Section 4 of Title 3, Virgin Islands Code. Once having assumed such powers, the CFO would exercise them for five full years, without oversight and without fear of removal from office, except for cause.

Under the Virgin Islands Code, the Director of the Office of Management and Budget has responsibilities similar to, but in some respects greater than, the Director of the U.S. Office of Management and Budget. The Director prepares the executive budget; the Director resolves competing demands among departmental and agency heads for limited resources; the Director provides guidance to departments and agencies on the allocation and management of their financial resources, their physical resources, and their human resources.

Under our law, the Director of VIOMB has the authority to direct program managers to revise their operational plans in whole or in part. The Director may modify or withhold planned expenditures of appropriated funds at any time during the appropriation period if he or she finds that such expenditures are greater than those necessary to execute the programs as authorized by law, or if he or she finds that receipts and surpluses will be insufficient to meet authorized expenditure levels. The Director, under current law, reports quarterly to the Governor and the Legislature on the operations of each department and agency, relating actual accomplishments to those planned, and modifying, if necessary, the operations plan of any department or agency for the balance of the fiscal year. In short, the Director of the Office of Management and Budget directs expenditures to ensure that essential functions are preserved, and that program priorities are maintained and missions are accomplished; but he also exercises the powers of apportionment and allotment of available funds similar to the impoundment authority once, but no longer, wielded by the President of the United States.

There is one major distinction, however, between the powers of the Director of the VIOMB under current law, and the functions of the CFO under the terms of H.R. 3589, and that distinction makes all the difference in the world. Under current law, the Director is accountable to the Governor, and through him, to the people of the Virgin Islands. Under H.R. 3589, however, the CFO is not accountable to either the Governor or to the people. Specifically, the Director, in the exercise of all functions, must ensure that his decisions are “consistent with the policy decisions of the Governor. . . .” See, e.g., Section 26(c)(1) of Title 2, Virgin Islands Code. In carrying out his duties, the Director serves at the pleasure of the Governor. If the Director fails to carry out the policy directives of the elected Governor, he or she can be removed from office. In contrast, if the proposed CFO were to disregard the Governor’s policy directives, there would be no practical remedy. Neither the elected Governor nor the electorate would have an effective way to restore power to the people.

If the CFO were to impose his or her own priorities, the Governor would be left with two unworkable choices: either to defer to the CFO’s judgment, or to attempt to create an impasse with the complicity of the Legislature. There would be no practical way to remove the offending CFO; the terms of H.R. 3589 would not permit it. If on the other hand, the CFO were to defer to the Governor on all policy and programmatic decisions, there would be no reason for having created the office in the first place. Under such circumstances, the bill’s only practical effect would be to deny the Governor’s right to name his own person to the office, subject to the advice and consent of the Legislature.

*The CFO Selection Process*

Under the terms of H.R. 3589, the three candidates for CFO would be selected by a commission under the chairmanship of the Secretary of the Interior, or her designee, presumably The Honorable David Cohen, Deputy Assistant Secretary of the Interior for Insular Affairs. If the Governor refused to nominate one of the anointed three, the Secretary of the Interior would step in to name an Acting CFO.

Mr. Chairman, one can hardly imagine a more undemocratic process for selecting a local official to serve in an essential governmental office. The Governor, in the first place, is denied any real discretion in nominating one of his most important appointive officials. Once forced to choose from among three candidates produced under a process organized by a cabinet-level Federal officer, the Governor would be forced either to accommodate the dictates of the CFO, or to create an impasse in governance in concert with the legislative branch.

The selection process for the CFO under the bill undermines the prerogatives and authority of the Governor. More compellingly, the exercise of unchecked powers by an unelected CFO, accountable to no one, could threaten the very existence of the republican form of government bestowed upon us by the Revised Organic Act, and which Congress and the people of the Virgin Islands have steadfastly sought to perfect over the last half century. Together, these provisions of H.R. 3589 are a prescription for a dysfunctional government in the Virgin Islands, a most unwelcome outcome for the members of this distinguished Committee, for the Congress as a whole, and for the United States citizens in the United States Virgin Islands.

*Fiscal Progress of the Government of the Virgin Islands*

Quite apart from the Constitutional infirmities of this bill, it is simply the wrong remedy, for the wrong ailment, at the wrong time. In point of fact, notwithstanding the economic setbacks occasioned by 9/11 and the ensuing national recession, the Government of the Virgin Islands has made enormous progress in stabilizing its fiscal condition over the course of the last six years. After two difficult years, we have resumed our march towards fiscal balance and economic stability. Revenues are growing, spending is coming under control, total debt service is manageable. We are not facing fiscal insolvency or collapse. In short, there is no fiscal reason to support the abrogation of the Governor's authority under this bill.

Two-and-a-half weeks ago, I transmitted to the Legislature a balanced budget for Fiscal Year 2005, calling for spending of \$565 million, a reduction of some \$25 million, or approximately 5 percent below spending levels in Fiscal Year 2004. This balanced budget has been accomplished after painstaking review and careful consideration of difficult alternatives by my financial team—including the Director of the Office of Management and Budget—through a combination of spending reductions and revenue enhancements. While we were forced, like most of the States of the Union, to balance last year's budget with short-term borrowing and non-recurring revenues, we were able to do this on our own, without instruction by others and without massive layoffs or debilitating reductions in essential public services.

The balanced budget now pending before the Legislature restores the Virgin Islands to the path of fiscal responsibility and stability we started on when I first assumed office in January 1999. Indeed, at that time, the Virgin Islands was still suffering from the effects of two of the most destructive hurricanes to hit our shores in the last century, disasters which left in their wake billions of dollars of property losses, decimation of much of the tourism infrastructure on St. Croix, and erosion of our tax base. We survived the worst of these disasters through the hard work and resourcefulness of our people, but also through the generosity of the Federal government, including the Federal Emergency Management Agency (FEMA). While total Federal disaster assistance totaled several hundreds of millions of dollars, much of it was also in the form of federal loans. Even today, absent debt forgiveness under the terms of the Stafford Act or other law, we will be obligated to repay FEMA over \$180 million for Federal emergency disaster assistance that kept the government operating in the immediate aftermath of the hurricane's path of destruction.

For these and other reasons, the economy in the Virgin Islands never fully recovered from the disasters of the 1990's. As a consequence, when I assumed office in 1999, revenues were falling, spending was climbing, tax refunds and vendor payments were unpaid and negotiated salary increases for hardworking but underpaid government workers were ignored. Moreover, the exact state of the finances was unknown, because the Government had no current audited financial statements for the central Government. Indeed, the Government had at that time completed only one Single Audit of the comprehensive functions of the Virgin Islands Government, as required by the federal Single Audit Act of 1984, as amended, over the previous 14-year period.

One must recognize that the responsibilities of the Territorial government are not just to provide a balanced budget, but also to deliver essential services to the people. Our public schools required badly needed repairs and hurricane-destroyed schools needed to be completely rebuilt. Our solid waste landfills and antiquated wastewater treatment facilities violated federal standards. Our road fund was depleted, leaving potholes unrepaired and our roads unsafe to drive. And our Economic Development Program was largely moribund, starving the Territory of urgently needed private investment.

Faced with these cold realities, we went to work. Under my administration, I imposed a hiring freeze on government agencies. I instructed my Office of Management and Budget to cut spending in my first year in office and to prepare a revised budget for my second year slashing departmental spending by 10 percent. I directed the preparation of a five-year economic and fiscal recovery plan for long-term financial stability. And I developed a partnership with the Secretary of the Interior to assist in addressing our problems with a commitment to return the budget of the Virgin Islands Government to structural balance by the end of Fiscal Year 2003.

While it was not always easy and not always smooth—it never is in a democratic system—over the first three years of my first term in office, we did restore fiscal discipline; we did earn the respect of the federal government; we did generate record new revenues; we did pay long delinquent tax refunds and overdue vendor bills; we did reduce our debt; we did pay our government workers their long denied salary increases; and we did lay the foundation for a broad-based economic and financial recovery. We did this in a compressed period of time, which many thought was impossible, through the hard work of my fiscal team. Indeed, we exceeded our goals and achieved our first budget surplus by the end of Fiscal Year 2001. And we made a concerted effort to produce timely audited financial statements in compliance with the Single Audit Act for the first time in our history. The comprehensive financial audits required under this Federal law are among the most valuable tools available for effective financial management and provide the most accurate picture of a government's financial condition, as well as the roadmap, where appropriate, for fiscal reform. Mr. Chairman, I am proud to state that, while only one such audit had been completed prior to my tenure in office, my administration has completed eight such audits for the Fiscal Years 1995-2002 and is now in full compliance with the Act. As a result of our progress in achieving compliance with the Single Audit Act and improving our financial accountability, Wall Street rating agencies have issued investments grade ratings when the Government has in recent years sought to access the capital markets.

No local government official, in the Virgin Islands or anywhere else, however, could have predicted 9/11 and the significant damage it would cause to our national and Territorial economies. Indeed, since 9/11, virtually every State in the Union and every Territory of the United States has fallen into recession and into deficit. The Virgin Islands was no different. And while many of the same economic forces are at play in the Virgin Islands as in the United States, we also face additional challenges. For example, the policy prescription chosen by the President and the Congress to cure our economic ills—significant tax reduction—has had the unintended but automatic consequence of reducing Territorial revenues under our Congressionally-mandated mirror income tax system. Indeed, our Bureau of Internal Revenue has estimated that the Virgin Islands will lose more than \$57 million in the current tax year alone as a result of Congress' enactment of income tax rate reductions and its expansion of refundable tax credits. In addition, the Territory is losing more than \$7 million in corporate tax revenues each year as a result of the recent World Trade Organization (WTO) ruling against the U.S. foreign sales corporation law. The Virgin Islands Government is also under federal consent decree requiring the Government to significantly increase expenditures for the improvement of our wastewater and solid waste systems in the Territory at the same time it must commit scarce local resources to meet other unfunded federal mandates. And healthcare costs continue to increase in the Territory as on the mainland, with the Government forced to pick up a disproportionate share of the costs for the poor and the uninsured as a result of the continuing discriminatory cap on Medicaid reimbursement.

Notwithstanding these difficulties, as well as issues of purely local concern, we are committed to making the tough decisions to bring our budget into balance. We are committed to making the tough decisions to increase the efficiency of our government and to improve the delivery of essential public services to our people. But because progress requires prioritization in the face of increasing competition for scarce resources, our Founding Fathers—including Alexander Hamilton who grew up on St. Croix—had faith that these tough decisions could best be made through the political process by the elected leaders of the people whom they serve.



This bill, however, goes in the opposite direction. It would remove the authority to make tough budgetary decisions from the Governor and the Legislature—the elected representatives of the people—and place it in the hands of an unelected official accountable to no one.

In sum, as I stated in my 2004 State of the Territory Address, it is the duty of the elected officials of the Government of the Virgin Islands to exercise the appropriate fiscal discipline. We can, we must, and we shall do what has to be done ourselves. Accordingly, in the best and honored traditions of this distinguished Committee, I strongly urge you to reject this bill and the undemocratic premises on which it is based.

Thank you, Mr. Chairman.

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Mr. RENZI. The Chair now recognizes Senator David Jones, the President of the U.S. Virgin Islands Legislature. Mr. Jones?

**STATEMENT OF HON. DAVID A. JONES, SENATE PRESIDENT,  
25TH LEGISLATURE OF THE VIRGIN ISLANDS, U.S. VIRGIN  
ISLANDS**

Mr. JONES. Good morning, Mr. Chairman, Mrs. Christensen, and other members of the House Resources Committee.

Mr. Chairman, I reviewed the amendment in the nature of a substitute to H.R. 3589 and for the reasons I am about to express, as an officer of the Government of the Virgin Islands and a representative of the people of the Virgin Islands, I am diametrically opposed to the passage of H.R. 3589.

H.R. 3589, as proposed, infringes on the powers that Congress has delegated to the Government of the Virgin Islands and denigrates all progress in self-determination while at the same time imposing unnecessary, inefficacious, and cumbersome additional layer of bureaucracy. The legislation proposed by our Delegate to Congress, Mrs. Christensen, does not adequately address the problems plaguing the Virgin Islands. Rather, the proposed legislation fatally obstructs our problem solving tactics and will have the effect of delaying the resolution of the fiscal progress and halting advancements already in progress.

H.R. 3589 is primarily concerned with the exercise of control by the Secretary of the Interior over the selection of an individual who would perform the same duties and have the same powers as those currently held by the Director of the Office of Management and Budget. Under existing law, the Director of the Budget has much broader powers and responsibilities than those enumerated for the proposed Chief Financial Officer set forth in Section 1(b) of H.R. 3589.

The only discernable impacts of the proposed legislation are the change in position title and three-tiered instead of a two-tiered appointment process. The powers enumerated in Section 2 of H.R. 3589 are but a modicum of the powers that have been statutorily conferred upon the Director of the Office of Management and Budget, which he already has.

Under existing laws of the Virgin Islands, the Director of the Office of Management and Budget has the power and duty to, one, assist the Governor in the preparation and explanation of the proposed comprehensive program and financial plan, including the coordination and analysis of department and agency program goals, objectives, program plans, and program budget requests.

Two, develop information, communication, and data processing systems needed for effective policy decisionmaking.

Three, assist departments and agencies in their statement of goals and objectives, preparation of program plans, program budget requests, and reporting of program performance. Their assistance may include technical assistance, organizational materials, standards, and guidelines for formulation, and population and other required data.

Four, administer his responsibilities under the program execution provisions of the Executive Budget Act so the policy decisions and budget determinations of the Governor and the Legislature are implemented to the fullest extent possible within the concepts of proper management.

Five, provide the Legislature with any budget information it may request.

Six, review options—operations plans, excuse me, to determine that they are consistent with the policy decisions of the Governor and appropriations made by the Legislature, that they reflect the proper planning and efficient management methods, that appropriations have been made for the planned purpose and will not be exhausted before the end of the fiscal year.

Seven, modify or withhold the planned expenditures at any time during the appropriation period if the Director of the Budget finds that such expenditures are greater than those necessary to execute the programs at the level authorized by the Governor and the Legislature, or that the receipts and surpluses will be inefficient—I am sorry, insufficient to meet the authorized expenditure levels.

Eight, report quarterly to the Governor and the Legislature on the operations of each department and agency, relating actual accomplishments to those planned, and modifying, if necessary, the operations plan of any department or agency for the balance of the fiscal year.

Moreover, Title 3, Section 4, which establishes the Office of Management and Budget, establishes in Subsections (c) through (k) a comprehensive regime for the accomplishment of the mutual goals of the Government of the Virgin Islands and a Delegate to Congress to develop and implement fiscal plans and measures calculated to establish fiscal integrity and provide technical tools for eliminating budget deficits and establishing fiscal stability and contains the following provisions.

Under these provisions, with a view of securing greater economy and efficiency in the conduct of public service, the Office of Management and Budget is mandated to make a detailed study of the departments, agencies, and commission of the Government of the Virgin Islands for the purposes of enabling the Governor to determine what changes should be made in, one, the existing organization, activities, and methods of business of said departments, agencies, and commissions; two, the appropriations therefore; three, the assignment of particular activities to particular services; or four, the regrouping of services.

The results of the study required under Section 4 must be embodied in a report to the Governor, who is in turn mandated to transmit the report to the Legislature with his recommendations on the matters covered. Moreover, under Section 4, the Director of

the Office of Management and Budget is mandated to evaluate and develop improved plans for the organization, coordination, and management of the executive branch of the government with a view to efficient and economical service.

The Director of the Office of Management and Budget is also mandated to develop programs and to issue regulations and orders for the improved gathering, compiling, analyzing, publishing, and disseminating of statistical information for any purpose by the various agencies in the executive branch of the Government of the Virgin Islands, and the agencies must adhere to regulations and orders.

Further, Section 4 directs the head of each executive department, agency, and commission, in consultation with the Director of the Office of Management and Budget, to take whatever actions that may be necessary to achieve consistency in accounting, budget classifications, organizational structure, and support of the budget justifications by information such as performance and program costs by organizational units.

The Office of Management and Budget is mandated at the request of the Legislature's Committee on Finance to furnish the committee such aid and information as may be requested.

The 25th Legislature, Mr. Chairman, of the Virgin Islands has pending before a standing Committee on Government Operations Bill No. 25-0150, entitled to amend Title 33 of the Virgin Islands Code to establish the Virgin Islands Review Board. Our pending legislation establishes a body corporate and politic to be known as the Virgin Islands Financial Review Board. Unlike the Delegate's proposal for the appointment of a Chief Financial Officer, the Virgin Islands Review Board will be an autonomous instrumentality.

This bill is intended to provide the Government of the Virgin Islands with the technical tools to eliminate budget deficits, to establish sound budgetary and managerial practices, and impose stringent control on appropriations and spending. The Virgin Islands Review Board will be a tenacious watchdog over government spending. The Virgin Islands Financial Review Board will constitute the audit, evaluation, and investigative independent instrumentality of the government.

Mr. RENZI. Sir—

Mr. JONES. Mr. Chairman, the Federal Government, as I conclude, into the local affairs of the government and people of the Virgin Islands through H.R. 3589 will create more problems than it would solve and supplant a superior and more effective fiscal regulatory scheme with one that would have a retrogressive impact on the Virgin Islands' progress toward financial stability and economic independence.

In conclusion, I am convinced that by working together, we can begin to turn the Virgin Islands economy around. It is understood that political leadership demands long-term vision, strategic planning, constructive dialog, and the courage to address present fiscal issues. H.R. 3589 is a step in the wrong direction.

I thank you, Mr. Chairman.

Mr. RENZI. Thank you, Mr. Senator.

[The prepared statement of Mr. Jones follows:]

**Statement of The Honorable David S. Jones, Senate President,  
25th Legislature of the Virgin Islands, U.S. Virgin Islands**

**INTRODUCTION:**

Good morning Mr. Chairman and members of the House Resources Committee. I am David S. Jones; President of the 25th Legislature of the United States Virgin Islands. I am currently serving my 5th term as a Senator in the U.S.V.I. It is my pleasure to appear before you today to give my views on H.R. 3589, legislation to establish a Chief Financial Officer for the United States Virgin Islands.

Today marks the first opportunity to present testimony in Congress, in my capacity as President of the 25th Legislature of the U.S. Virgin Islands. I consider it an honor to be here as a representative of the Legislative Branch and of our constituents, the people of the U.S. Virgin Islands.

On behalf of our constituents, I wish to take this opportunity to thank you for your kind attention to the matters of our territory. We anticipate that your consideration of the 25th Legislature's Resolution to condemn the action of Delegate to Congress for introducing H.R. 3589 without first seeking their approval, or sense of the people of the Virgin Islands will result positively for all of us.

Mr. Chairman, this testimony is not intended to grapple with all aspects of the challenges in the Virgin Islands, but to point to a number of concrete steps we have taken to improve opportunity, maximize the great potential of our growing population and accelerate our journey to building a United States Virgin Islands of economic prosperity.

**TESTIMONY:**

I have reviewed the Amendment in the Nature of a Substitution to H.R. 3589 and for the reasons I am about to express, as an officer of the Government of the Virgin Islands and a representative of the people of the Virgin Islands, I am diametrically opposed to the passage of H.R. 3589.

H.R. 3589, as proposed infringes on the powers that Congress has delegated to the Government of the Virgin Islands and denigrates all our progress in self determination, while at the same time imposing an unnecessary, inefficacious and cumbersome additional layer of bureaucracy. The legislation proposed by our Delegate to Congress, Mrs. Christensen, does not adequately address the problems plaguing the Virgin Islands. Rather, the proposed legislation fatally obstructs our problem-solving tactics and will have the effect of delaying resolution of the fiscal progress and halting advancements already in progress.

H.R. 3589 is primarily concerned with the exercise of control by the Secretary of the Interior over the selection of an individual who will perform the same duties and have the same powers as those currently held by the Director of the Office of Management and Budget. Under existing law, the Director of the Budget has much broader powers and responsibilities than those enumerated for the proposed Chief Financial Officer set forth in Section 1 (b) of H.R. 3589. The only discernable impacts of the proposed legislation are the change in position title and a three-tiered, instead of a two-tiered, appointment process. The powers enumerated in section 2 of H.R. 3589 are but a modicum of the powers that have been statutorily conferred upon the Director of the Office of Management and Budget already.

Under existing laws of the Virgin Islands, the Director of the Office of Management and Budget has the power and duty to:

- (1) Assist the Governor in the preparation and explanation of the proposed comprehensive program and financial plan, including the coordination and analysis of Department and Agency program goals, objectives, program plans, and program budget requests.
- (2) Develop information, communication and data processing systems needed for effective policy decision-making.
- (3) Assist Departments and Agencies in their statement of goals and objectives, preparation of program plans, program budget requests and reporting of program performance. Their assistance may include technical assistance; organization of materials; centrally collected accounting, budgeting and personal information; standards and guidelines formulation; population and other required data.
- (4) administer his responsibilities under the program execution provisions of Executive Budget Act so that the policy decisions and budget determinations of the Governor and the Legislature are implemented to the fullest extent possible within the concepts of proper management.
- (5) Provide the Legislature with any budget information it may request.
- (6) Review operations plans to determine that they are consistent with the policy decisions of the Governor and appropriations by the Legislature, that they

reflect proper planning and efficient management methods that appropriations have been made for the planned purpose and will not be exhausted before the end of the fiscal year.

- (7) Modify or withhold the planned expenditures at any time during the appropriation period if the Director of the Budget finds that such expenditures are greater than those necessary to execute the programs at the level authorized by the Governor and the Legislature, or that the receipts and surpluses will be insufficient to meet the authorized expenditure levels.
- (8) Report quarterly to the Governor and the Legislature on the operations of each Department and Agency, relating actual accomplishments to those planned, and modifying, if necessary, the operations plan of any Department or Agency for the balance of the fiscal year.

Moreover, Title 3, Section 4, which establishes the Office of Management and Budget, establishes in Subsections (c) through (k) a comprehensive regime for the accomplishment of the mutual goals of the Government of Virgin Islands and the Delegate to Congress to develop and implement fiscal plans and measures calculated to establish fiscal integrity and provide technical tools for eliminating budget deficits and establishing fiscal stability, and contains the following provisions:

Under these provisions, with a view of securing greater economy and efficiency in the conduct of the public service, the Office of Management and Budget is mandated to make a detailed study of the Departments, Agencies and Commissions of the Government of the United States Virgin Islands for the purposes of enabling the Governor to determine what changes, should be made in;

- (1) The existing organization, activities, and methods of business of such Departments, Agencies and Commissions,
- (2) The appropriations therefore,
- (3) The assignment of particular activities to particular services, or
- (4) the regrouping of services.

The results of the study required under section 4 must be embodied in a report to the Governor, who is in turn mandated to transmit the report to the Legislature with his recommendations on the matters covered.

Moreover, under Section 4, the Director of the Office of Management and Budget is mandated to evaluate and develop improved plans for the organization, coordination and management of the executive branch of the Government with a view to efficient and economical service. The Director of the Office of Management and Budget is also mandated to develop programs and to issue regulations and orders for the improved gathering, compiling, analyzing, publishing and disseminating of statistical information for any purpose by the various agencies in the executive branch of the Government, and the agencies must adhere to the regulations and orders.

Further, Section 4 directs the head of each Executive Department, Agency and Commission in consultation with the Director of the Office of Management and Budget, to take whatever actions that may be necessary to achieve consistency in accounting, budget classifications, organizational structure, and support of the budget justifications by information such as performance and program costs by organizational units.

The Office of Management and Budget is mandated at the request of the Legislature's Committee on Finance, to furnish the Committee such aid and information as it may request.

H.R. 3589 does not confer on the Chief Financial Officer any more authority than the Director of the Office of Management and Budget already has, neither does the proposed legislation impose any greater qualifications or other criteria of selection than the current Director of the Office of Management and Budget possesses.

The Virgin Islands does not lack effective legislation to govern fiscal accountability. On the contrary, the problem is one of enforcement. The appointment of a Chief Financial Officer who has basically the same regulatory powers as the Director of the Office of Management and Budget constitutes an exercise in futility if such a measure is intended to enforce the statutorily declared policies and to resolve our fiscal problems. To solve the Virgin Islands' fiscal problems and to establish fiscal stability, the Government of the Virgin Islands needs technical resources from the Department of Interior and other Federal Executive Departments and Agencies and a mechanism for monitoring and review of the fiscal operations of the Government.

The Twenty-Fifth Legislature of the Virgin Islands has pending before its standing Committee on Government Operations Bill 25-0150, entitled to amend title 33 of the Virgin Islands Code to establish the Virgin Islands Review Board. Our pending legislation establishes a body corporate and politic to be known as the Virgin Islands Financial Review Board. Unlike the Delegate's proposal for the

appointment of a Chief Financial Officer, the Virgin Islands Review Board will be an autonomous instrumentality.

Bill No. 25-0150 is intended to provide the Government of the Virgin Islands with the technical tools to eliminate budget deficits, to establish sound budgetary and managerial practices and impose stringent control on appropriations and spending. The Virgin Islands Review Board will be a tenacious watch dog over government spending. The Virgin Islands Financial Review Board will constitute the audit, evaluation, and investigative independent instrumentality of the Government.

The powers and duties of the Review Board will be exercised by a board of seven members. Bill No. 25-0150 commands that all of the Review Board members must have experience in finance or management.

Our pending legislation gives the seven-member Review Board much broader authority to monitor, investigate and impact the fiscal affairs of the Government than does H.R. 3589. Our proposed legislation grants the Review Board authority to contract for professional services and resources to assist it in carrying its mandate.

Our proposed legislation commands the Governor to submit for the Review Board's review and approval a five-year financial plan. The bill establishes standards for formulation and approval of the five-year plan, and establishes clear standards, principles and policies for the attainment of fiscal stability; whereas, H.R. 3589 solely imposes federal involvement in the selection of an individual to head the Office of the Management of the Budget, and if enacted, it could adversely impact the progress the Government of the Virgin Islands has recently made toward the resolution of its fiscal problems.

H.R. 3589 grants the Secretary of the Interior a default position, if the Commission or the Legislature fails to act with respect to the appointment of a Chief Financial Officer. If the candidates are unacceptable to the Legislature or the Governor, the Secretary of the Interior may unilaterally appoint a successor to our Director of the Office of Management and Budget. Moreover, even more draconian is the provision in H.R. 3589 which divests the Director of the Office of Management and Budget of his office and demotes him to a deputy. This provision attests to a demonstrable disregard and lack respect for the Governor's rights conferred by the Revised Organic Act of the Virgin Islands to organize and exercise control over all the Departments and Agencies of the Executive Branch of the Government of the Virgin Islands.

The federal involvement into the local affairs of the Government and people of the Virgin Islands through H.R. 3589 will create more problems than it would solve and supplant a superior and more effective fiscal regulatory scheme with one that would have a retrogressive impact on the Virgin Islands' progress toward financial stability and economic independence.

Section 3 of the H.R. 3589 provides that not later than one year after its enactment the Secretary of the Interior shall provide a financial management system to the Chief Financial Officer and five years later the system will be available to the Director of the Office of Management and Budget. The financial management system is needed now to assist the Governments in its efforts to improve our financial system. I am confident that with technical resources and effective enforcement of the fiscal policies established by the Legislature, the Virgin Islands will achieve financial stability and economic independence and realize its advancement of self determination.

The Legislature of the Virgin Islands has been undertaking diligent efforts to legislate measures to improve the economy, increase our markets and productivity, increase efficiency and improve the delivery of government services. Our current efforts are intended to ensure the Government's accountability to well-established principles of fiscal integrity and accountability to the people of the Virgin Islands. If given the opportunity without interference by intrusions, such as H.R. 3589, the Government of the Virgin Islands will soon realize its goals towards economic stability. The Revised Organic Act a half a century ago conferred on the people of the Virgin Islands the right of self-determination, and to freely pursue social, political cultural and economic development. H.R. 3589 unreasonably abridges our right to self determination, and therefore, must not be enacted.

#### **CONCLUSION:**

I am convinced that by working together we can begin to turn the Virgin Islands' economy around. It is understood that political leadership demands long-term vision, strategic planning, constructive dialogue and the courage to address present fiscal issues.

Obviously a brief presentation such as the one I have made today cannot convey adequately the measures needed to implement effective fiscal measures.

I will be happy to answer any questions you may have.

Thank you for your time and consideration.

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Mr. RENZI. I have no questions. I am going to turn to Mrs. Christensen. Mrs. Christensen?

Mrs. CHRISTENSEN. Thank you, Mr. Chairman. Thank you for your testimony. I just want to address the issue of the Office of the Director of Office of Management and Budget, because I really cannot deny that the powers of the Director of the Office of Management and Budget would be superceded by the CFO in many instances, or at least that they would serve within that Office of the Chief Financial Officer. Just as the bill does not in any way intend to cast any aspersions on any Legislature or Governor that has served or is serving, it does not intend to do that on the Director of OMB, with whom I have worked and who I have a great deal of respect for.

However, we are not in ordinary times, as I see it and has been substantiated by several pronouncements and the recurrent borrowing. Indeed, the system under which the Budget Director has made the function and the lack of independence from political pressures, I think, do not empower the person who would be serving in that office to address the current fiscal crisis and the recurring deficits and I think that is evident by the fact that we have had recurring deficits over the years. So I wanted to just say that for the record.

Governor, I am not going to ask you many questions. You have been very clear in your testimony, your position on the bill. I think there are some areas where I think that the bill is misinterpreted, but let me just say, one of the premises on which I crafted my bill is the belief of many in the community that both the administration and the Legislature, as well as the people of the Virgin Islands, would greatly benefit from independent and realistic budget revenue projections.

In fact, a former League of Women Voters President and former Office of Management and Budget employee, Irma Denham, had asked the question in an August 2002 op-ed, wouldn't it be nice if just once the Government of the Virgin Islands presented an annual executive budget proposal with realistic revenue estimates rather than overly optimistic and inflated revenue estimates, and we are not the only jurisdiction that does that. This is common practice where there is not someone in place or an office in place to enforce realistic revenue projections.

Why would you not benefit, why wouldn't the Government of the Virgin Islands benefit from an independent, realistic budget revenue projection, which is what the Chief Financial Officer would do—not set priorities for government, not interfere with your setting of the priorities or the Legislature's setting of priorities, but certify a budget based on reasonable, certifiable revenue projections?

Governor TURNBULL. Madam Delegate, as you know, this is the first major issue on which we differ. The matter is a matter of self-governance. We in the territories are entitled to solve our own problems, and indeed, to correct our own mistakes just like any other State. I am saying that we are able to do that. As you know,

I oppose this bill as much in principle as anything else, that we can learn from our own mistakes.

We are on our way to recovery. The system of checks and balances is working in the Virgin Islands. The Legislature passed a budget. I vetoed it, and just like any other State or territory. And I feel that we can manage our own affairs, and we are not insolvent. We have not reached any crisis point and we are going in the right direction to solve our problems. If we are going in the wrong direction, then we would reach that point when it would be a catastrophe, as the gentlelady from Guam mentioned. But we are not insolvent and we are moving away from insolvency. We are moving into the direction of correcting our problems.

Mrs. CHRISTENSEN. I can't say for this here Governor, but the Virgin Islands Bureau of Economic Research is forecasting a projected deficit of \$92.4 million for Fiscal Year 2005. What would be the cause of such a sizable shortfall? What is being put in place to avoid that, and was that factored into the 2005 budget?

Governor TURNBULL. Yes. We have reduced spending and the Director of the Office of Management and Budget has cut allotments and so forth all along the way and we will continue to cut. The main thing is that we must know what our priorities. My priorities, as you know, are education, health care, public safety, and human services. So when we cut, we take that in mind. I am not sure that a CFO would move in that direction, and that CFO would not be accountable to the people.

Mrs. CHRISTENSEN. Would you consider that—

Governor TURNBULL. And I have just read a note, we are not projecting a deficit for 2004. I just got it from the Budget Director. We are not projecting a deficit for 2004.

Mrs. CHRISTENSEN. OK, no. I was referring to 2005. I realize that at this point in time, we are not projecting a budget deficit for 2004, but—

Governor TURNBULL. Our budget for 2005 is balanced.

Mrs. CHRISTENSEN. Would you not agree that the fact that the Chief Financial Officer, by virtue of the bill, is required to give a financial report within 6 months of being put in office and quarterly thereafter be an evidence of accountability?

Governor TURNBULL. Yes, but our own Director can do that, Madam Delegate. We can do this ourselves and we are aware of the problem. Even this exercise here today will make people more aware of the problem and reinforce the fact that we have to continue to move in the right direction and to be fiscally responsible. That is the one good thing I think will come from all of this hearing and the publicity, is that we have got to move in the right direction and continue to move in the right direction and be fiscally responsible.

Mrs. CHRISTENSEN. Would you not agree, though, Governor, that even when you set in place policies and budgets that are fiscally responsible, that it is not totally within just the executive branch of government, and has it not been the case that the Legislature often sends back a budget that is over with revenue projections and a budget that is set at a level higher than what you have set, and that I think you are facing an override at the present time, that



it would be helpful to have a Chief Financial Officer to work along with you to not permit that to happen?

Governor TURNBULL. Madam Delegate, again, I say we have to learn from our own experiences. The Legislature will learn that they are not to override vetoes when there is no money, and I think they are learning that lesson. There is a great hesitancy to override a veto. I can't speak for what is going to really happen, but they are learning the lesson, too. I mean, I don't want to be condescending in that statement, and that is what it is all about, growing, becoming mature, politically mature, and the territories ought to be given the permission and the ability to mature and learn from their own mistakes.

Mrs. CHRISTENSEN. The Chairman has graciously yielded me his time.

Senate President Jones, a couple of years ago, the members of the Majority Caucus, I believe, walked off of the floor because the Governor did not allow his financial people to give the majority information, financial information that was badly needed for you to make an informed decision on the bond issue. Given that the Chief Financial Officer is to report quarterly on the financial status of the government and has an obligation to report, wouldn't having an independent CFO whose responsibility is to provide impartial financial information have made that a different situation or a better situation? Would you not agree that having a person such as this would be more helpful rather than obstruction to your doing your work?

Mr. JONES. Clearly, Congresswoman, the issue that you describe had more to do with the politics of the involvement of the minority caucus at the time in making a decision, a major policy decision to pay unionized employees their long-awaited raises, and we wanted to participate in that, but since we didn't have the information that was granted to or shared with the majority caucus outside of the Legislature, we felt that we wanted to make that statement. However, the Director—

Mrs. CHRISTENSEN. Independence would have allowed them to—and their responsibility to report to the public or to the Legislature, whatever made it possible for you to have that information.

Mr. JONES. Well, Congresswoman, under the present regime, the Office of Management and Budget, the Commission on Finance, and the Director of the Bureau of Internal Revenue do provide regular reporting to the Legislature. As a matter of fact, that is done on a quarterly basis and we have in our code that requirement. So we do get the information that we require on a monthly basis, the revenue projections. We do receive that information.

Mr. RENZI. Thank you, Senator. Thank you both very much.

We are going to move—I think we have one question, two questions? The gentleman from American Samoa?

Mr. FALEOMAVEGA. Just for clarification, Governor Turnbull, welcome again to the Committee and for your testimony. Who among the financial officials in the Virgin Islands will certify this is exactly the status of the revenue or the financial status of the Virgin Islands each year? Do you do it on a yearly basis, or I guess you have an annual audit that takes place every year, or how—I am just trying to follow up on what Congresswoman Christensen

is concerned about. You do have a certifying financial officer that says, this is how much revenue we have, in fact, and no projections, no guesses. Who does that for you?

Governor TURNBULL. Really two, the Commissioner of Finance and the Director of the Office of Management and Budget. Those two officials are the ones who let us know exactly what is there and when we have overstepped the bounds and whatever. So we do have such persons.

Mr. FALEOMAVAEGA. Thank you.

Mr. RENZI. I thank the gentleman.

Governor TURNBULL. Thank you very much.

Mr. RENZI. The gentlelady—do you want to yield your time? The gentleman from American Samoa, would you yield time?

Mr. FALEOMAVAEGA. I would be glad to yield.

Mrs. CHRISTENSEN. Thank you, just for one question to the Senate President. You mentioned the legislation that Senator Berry has, I believe, introduced or is preparing to introduce. What authority does that Review Board have to ensure, not recommend, but ensure a balanced budget?

Mr. JONES. Again, the issue of balanced budget is ensured by the revised Organic Act of 1954. It states clearly the Governor of the Virgin Islands cannot submit to the Legislature an unbalanced budget.

Mrs. CHRISTENSEN. Yet we have had budgets that have been out of balance. We have had deficits at the end of many fiscal years. When was the last time that we had a budget that was in balance?

Mr. JONES. Congresswoman, you must appreciate how it works. When the Legislature appropriates monies, the Governor has the authority to spend up to that level of appropriation. However, there are times when the revenue projections or assumptions that are made by the Legislature don't pan out throughout the term of the fiscal year. And when revenues are short, then it is the authority of the Director of Management and Budget to determine the spending priorities within the context of the revenue that is collected. That is done through the allotment process.

Mrs. CHRISTENSEN. Would you agree that the fact that we have had budget deficit recurring, that that process has not worked as well as it should?

Mr. JONES. Well, I have a different point of view, Madam Congresswoman, and that is the real budget is the money that is collected and the money that is allocated, not what is appropriated. And what happens within the reporting mechanism, we carry appropriations or we report budgets based on levels of appropriation and if there are shortfalls within the appropriated budget that was passed by the Legislature, we claim that as a deficit, but it is not. It is a shortfall.

Mr. RENZI. Thank you both.

Mr. JONES. Thank you.

Mr. RENZI. Thank you. One more question, I think. I recognize the gentlelady from Guam.

Ms. BORDALLO. Thank you very much, Mr. Chairman. Governor, it is nice to see you again. I noticed you mentioned several times, and I agree with you when you speak of self-government and you must learn through making your own mistakes. I think all of the

insular areas have gone through that. In your testimony, you very eloquently described how the appointment of a CFO as proposed in this bill runs counter to the principles of self-government.

I believe such an argument was also expressed during Congress's decision to gain more control over the management of D.C.'s finances. It was a hard pill to swallow for them. But since the creation of D.C.'s CFO, seven balanced budgets have been passed. Moody's Investor Services upgraded their bond rating to A-2. The general fund has gone from a negative balance of \$518 million in 1996 to a positive balance of \$897 million in 2003, and they maintain an emergency account totaling more than \$250 million.

Can you give us your reaction and perspective on D.C.'s success and give the Committee a rationale of why you wouldn't want to look at D.C.'s success to forecast what could be a turnaround for your island?

Governor TURNBULL. Madam Delegate, I am aware of what happened in D.C. in two ways. My sister lives in the area, and as a history professor, I keep in touch with what is happening in the country.

First of all, we are not in the same position or not even near the same position that D.C. was when they had their Control Board. And second, we are heading away from that situation. In other words, we are running in the right direction, away from insolvency, and we are headed toward balanced budgets, which I submitted to the Legislature.

Ms. BORDALLO. Yes.

Governor TURNBULL. And that is why I am saying, at this time, we don't need a CFO. We are our own CFO and we are learning more and more the importance of being fiscally responsible. Under my watch, I said I will not overspend, and I mean it.

Ms. BORDALLO. So what you are telling the Committee, then, is things are improving financially?

Governor TURNBULL. Things are improving and we don't need—we don't need to head toward a hospital because we are feeling better.

Ms. BORDALLO. Then I am wondering, this question—thank you, Governor. This question is to you, Senator Jones. Why are you now—you have introduced Bill 25-0150, which calls for an independent review board. What is the status of that bill?

Mr. JONES. Madam Congresswoman, the bill is currently in the Committee on Government Operations and is going to be considered. Hopefully, it will be enacted before the end of this term.

Ms. BORDALLO. When was it introduced?

Mr. JONES. I can't remember the exact date, but this particular version has been around for the last, I would say, seven to 8 years.

Ms. BORDALLO. So then you do realize that there is a need for such a review board, is that what you are saying?

Mr. JONES. Well—

Ms. BORDALLO. In spite of the fact that the Governor has just said that the financial situation is improving?

Mr. JONES. Well, I personally do not support the bill. It is before the Committee, but I personally don't support the bill in its current form because I believe that we already have the mechanisms in place to take care of the challenges that we are experiencing, so—

Ms. BORDALLO. You feel, then, as President of the Senate, that the bill will fail, is that correct?

Mr. JONES. Well, I can't speak to that as yet. I don't know how many votes the Senator has on this particular bill. But if it passes, it would not be a hurtful thing because it would be organic. It would come from the Virgin Islands. You would have people who have expertise in finance and management to analyze the financial condition of the Government of the Virgin Islands.

Let me just make this one last point. The financial management system is a critical element in order for us to get a handle on the finances. The problem is we do not have a good and effective financial reporting mechanism in place at this time. We have been trying to get Interior to come on board the financial team. As a matter of fact, I have had discussions with the Governor and the members in the Department of the Interior to enable us to get a financial management system that we will be able to finance and they will probably guarantee if they don't have the resources immediately available, and that is something that we need. We do not need a CFO at this time. It is premature.

Ms. BORDALLO. So, Governor, then if this bill passes, you will sign it?

Governor TURNBULL. I cannot commit to that, Senator. But at least it is something internal and it shows that there are people within the Virgin Islands who have different views on this matter and that we can manage our own affairs. So we have conservative people and we have more liberal-minded people and so forth, but at least this would be something within the Virgin Islands that we would deal with. My premise is, let us deal with our own problems. We can.

Ms. BORDALLO. Thank you very much, Governor and Senate President Jones. Thank you very much.

Mr. JONES. Thank you very much.

Governor TURNBULL. Thank you very much.

Mr. RENZI. I thank the gentlelady from Guam and thank you both very much for your testimony.

Mr. JONES. Thank you, Mr. Chairman.

Governor TURNBULL. An honor to be here.

Mr. RENZI. We are grateful, very grateful.

Our final panel are also residents of the U.S. Virgin Islands. We are calling up now The Honorable Ronald Russell, Senator, United States Virgin Islands Legislature; and Mr. Holland Redfield, II, Republican National Committeeman. Would you both join us and please stand.

Raise your right hand and repeat after me, do you solemnly swear or affirm under the penalty of perjury that the statements made and the responses given will be the whole truth and nothing but the truth, so help you, God?

Senator RUSSELL. I do.

Mr. REDFIELD. I do.

Mr. RENZI. Thank you. Let the record show both witnesses stated in the affirmative.

Honorable Ronald Russell, Senator, we will begin with you, sir. Thank you.

**STATEMENT OF HON. RONALD E. RUSSELL, SENATOR,  
UNITED STATES VIRGIN ISLANDS LEGISLATURE**

Senator RUSSELL. Yes. Thank you very much, Mr. Chairman, and good day. Mr. Chairman, members of the Committee, other distinguished members of Congress, Governor Turnbull, David Jones, President of the 25th Legislature, members of the public present, those listening and viewing, my name is Ronald Russell and I am the Chair of the Education and Youth Committee of the 25th Legislature of the United States Virgin Islands. It is indeed an honor and pleasure for me to be offered the opportunity to testify on this very important proposal, H.R. 3589, submitted by our Delegate.

I am here to offer testimony in support of the Delegate and I want to digress from my written statement. The written statement is actually 12 pages long, and in consideration of how the Chairman has been handling this meeting and time constraints, I want to address particularly concerns that were raised by the questions. The written statement is here and I would ask the Committee members to read it.

First, the question was asked whether that bill, 25-150, would be passed. That is highly unlikely, and I will tell you, I am a signator on that bill. This is the same Legislature that condemned Delegate Christensen's bill. The Legislature of the Virgin Islands will not, I believe, support a control board. So when you ask the question, just let me state that I have a very different opinion from Mr. President.

Second, there were questions asked about this bill, whether it usurps the authority of the Legislature or the Governor. My reading of H.R. 3589 is that it temporarily replaces the Director of Office of Management and Budget. That is the only thing that it is really doing. And what that does, it takes the supervisory authority away from the Governor and puts it in the hands of an independent financial officer.

Let me state what the problems have been as I have seen it from in the Legislature. The Legislature, as any political body, over-appropriates money, even after a balanced budget is passed. They appropriate money because they have constituents that we have to address. When the money is appropriated, it then gives under the Virgin Islands law the Office of Management and Budget to dictate the priorities, and that gives the Governor, I think, an imbalance of power as opposed to the Legislature because then, even if the law says that the money is appropriated for a particular provision or policy or for a particular purpose, when the over-appropriations are done, the Office of Management and Budget then takes over the prioritizing of money and that is dictated by the Governor.

Second, the structure, the systemic problems that we have in the Legislature creates another imbalance in power because we run for Senate every 2 years. Running for Senate every 2 years cripples the Senate in the second year because everybody is campaigning. And when everybody is campaigning, you then have an imbalance, a shift of power over to the executive branch and the executive branch through the Office of Management and Budget determines priorities that are not in concert with the elected officials, which is the Senate.

And what we have had, and there are some alarming statistics and I am going to read it. The U.S. Virgin Islands Kids Count Data Book 2003 provides statistical data and information about children in the Virgin Islands. According to the data, 12,600 of our children live in poverty. The government is created to distribute wealth. While the Governor and the Senate President sits here and states that we are managing our financial affairs and we are moving out of debt. That should not be seen as in a vacuum.

The Kids Count data information that I provided to this Committee shows that the disparity in wealth between us as elected leaders and those holding big jobs in the government and the general population that we are elected to govern is widening. When we could have this amount of children in poverty and a disproportionate of wealth between the island of St. Croix and St. Thomas, we need help, and I have provided the information that I think supports why we need this help. The prolonged conditions in our community have led a lot of community members to support Federal help.

In closing, and I notice the time is up, I would like to state that I do not see this bill as taking away any duties or responsibilities of our elected leaders or what I have been elected to do. Indeed, it is in harmony with what I believe every household, community, and government should follow, and that is to have spending limits that are within their means. By giving the Legislature spending limits, we can avoid Senators making appropriations and deals with other Senators that are fiscally irresponsible.

Additionally, the opponents of the bill—you know, it is easy to get steeped in emotionalism and to speak about self-governance, but important policy decisions need to change on how we make these decisions in these islands so that the residents of our islands who are suffering, who are in economic depression, can sort of realize part of this American dream. We are an American territory. And while the leaders can stand and say, we are trying to solve some of the economic problems, the debts continue to rise.

In closing, let me briefly state that my analysis, as written, because I have excerpted my analysis, indicate that the territory is in need of immediate assistance to avoid any further economic and social deterioration. Clearly, this bill is meant to directly address the prevailing notion that our problems are a result of misplaced priorities and chronic mismanagement of available funds.

Nonetheless, I believe we need more than the bill and I have asked the U.S. Congress, in its wisdom, to consider along with H.R. 3589 to put provisions in its budget to resolve and alleviate some of the unmanageable debt we are now experiencing in the Virgin Islands. When the measure is adopted, consider appropriating funds to the Virgin Islands to alleviate child poverty, giving us more assistance in the areas of basic governmental services.

I want to thank you for this opportunity and I really appreciate any questions that you may have. The written testimony and the attachments are available for the Committee members to review. Thank you.

Mr. RENZI. Senator Russell, thank you for articulation.  
[The prepared statement of Senator Russell follows:]

**Statement of The Honorable Ronald E. Russell, Senator,  
25th Legislature of the Virgin Islands**

Good Day Mr. Chairman, members of the committee, other distinguished members of Congress, Governor Charles W. Turnbull, David S. Jones, President of the 25th Legislature of the United States Virgin Islands, members of the public present, those listening or viewing. My name is Ronald E. Russell and I am chair of the Education and Youth Committee of the 25th Legislature of the U.S. Virgin Islands. It is indeed an honor and a pleasure to be offered the opportunity to testify on this very important proposal, H.R. 3589, submitted by our Delegate to Create the Office of Chief Financial Officer of the Government of the Virgin Islands. I am here to offer testimony in support of Delegate to Congress Donna M. Christensen's proposed legislation. I will try to make my presentation as clear and as simple as possible. First what does the bill do? Second, do we in the Virgin Islands need this bill now? Third, does this temporary supervision address the long-term problems faced by this community? Fourth, how does the bill affect the responsibilities and duties of elected officials?

H.R. 3589, as I read it, is designed to temporarily replace the Director of the Office of Management and Budget, as established under Virgin Islands law, with a Chief Financial Officer [CFO] selected by a special commission. The selection commission is designed, as best possible, to represent the entire Virgin Islands community. Under section (c), the CFO shall certify spending limits of an annual budget and report to the public on a quarterly basis after an initial six month period. H.R. 3589 is actually designed to provide the territory with fiscal accountability, transparency, and proper management. As drafted, the bill does not usurp the powers and functions of the Virgin Islands Legislative nor does it usurp the functions of the Governor. Instead, the bill attempts to address community concerns regarding Government expenditures. It temporarily relieves the Governor of the power to direct the Office of Management and Budget at his pleasure. As proposed, the CFO would have the authority to limit expenditures through allocations, certify spending limits for an annual budget, and monitor the operations of the budget for compliance with spending limits, appropriations, and laws, and oversee all aspects of implementation of a new financial management system approved by the Dept of the Interior. Besides these well defined and fiscally responsible goals, the bill provides for the Secretary of the Interior to provide a fully automated financial management system to the Virgin Islands Government.

The next question is whether we need the bill now. The answer is an absolute "Yes". The past and current practices of our government have resulted in unequal distribution of wealth and resources within the territory. There is an unequal and unfair allocation of our financial resources. Government payroll continues to increase while necessary services and functions of government continue decrease. Instead of attempting to reduce government debt, we have increased our debts to an alarming rate. The number of children living in poverty is unacceptable. Education, Health and Public Safety all suffer from a lack of financial resources. The financial priorities identified and implemented by our executive branch of government are in conflict with the needs of our residents. Therefore, I believe the territory needs outside help as proposed by our delegate, which is professional, objective and fair.

Government is charged with providing adequate health, education, food, and shelter for all its residents. For the most part, these functions and resources should be distributed fairly among all residents. Prolonged imbalances lead to poverty, crime, poor education, poor health care and dissatisfaction within the community. St. Croix is especially problematic because it is in economic depression. History tells us that economic depression can lead to social chaos which can produce false leaders, demagogues and misplaced community values. We need to avoid and prevent the social chaos that can emerge if we fail to act now. Our socio-economic situation is on a path to disaster. The U.S. Virgin Islands Kids Count Data Book 2000 states our decline started in 1995 (i.e. Governor Schneider's administration). Since then we lost accreditation for our public high schools, the Government is currently subject to compliance agreements with Federal Agencies regarding use of federal funds, our local housing department is in receivership with the federal government, our financial management system is dated and there are a host of other concerns that have led to the proposal before this committee. Our decline is reflected in the institutions that provide basic functions for a civilized democratic society.

The U.S. Virgin Islands Kids Count Data Book 2003 provides statistical data and information about children in the Virgin Islands. According to the data, "12,600 of our children live in poverty. This means four children out of every 10 in the territory." The book continues, "children living on St. Croix, with a poverty rate of 45% are significantly worse off economically compared to St. Thomas where the

poverty rate is 31%. This 14% difference (in rates of poverty) translates to 3,350 more children living in poverty on St. Croix than on St. Thomas." See attached page 18, VI Kids Count 2003. The 2000 Kids Count book defined poverty as a four member family with two children living on less than \$17,463 annual income. More alarming is the single parent families data and statistics of the last three publications. Single mothers make up almost fifty percent of the Virgin Islands households. The concept of family is practically non-existent. These statistics are unacceptable. They are directly related to the priorities of government expenditure currently under the control of the Governor through the Office of Management and Budget.

As an elected leader of our beautiful islands, these statistics are alarming and quite disturbing. I am elected from St. Croix to represent the people of the territory. I am charged to carefully review information and seek public input to formulate laws, policies and make decisions. The information available indicates government services and the resultant standard of living expected; especially on St. Croix are completely out of proportion to the revenue generated and the available resources. I note that the frustration level and tension on St. Croix is very high. It appears that the middle class (i.e. police, teachers, nurses, social workers, HOVENSA workers, WAPA workers, VIPA workers) pay high taxes to help support the entire government; however, the requisite services that should be basic governmental functions are not being provided to these residents. Roads are in need of repair; street lights in many residential communities are not working or non existent; sewer and waste management are out of control; public safety is challenged due to a lack of financial resources and man-power; health care lacks adequate finances; union workers are not being paid their negotiated wages; and electricity and telephone service needs improvement. The less fortunate government workers, making less than \$20,000 annually, are forced to pay high prices for food, light, water, household items, gasoline, cable T.V., and telephone. The cost of living in the Virgin Islands is very high. Moreover, the unemployment rate is over 11% as reported but probably over 20% actually.

These prolonged conditions have led many in our community to support federal help. But one may ask how a CFO helps these seemly complex and long standing problems in the territory. Moreover, some believe we can solve our own problems and we do not need federal help. My response is that the CFO bill is not designed to solve all our social and economic problems. It is designed to help us through difficult financial times because our government structure is flawed and at this time unable to address the immediate needs of our people.

Now that I'm a politician, I can say that politically we have deteriorated even further than our socio-economic condition. Our downward spiral was not created by nor is it going to be immediately solved by the 25th Legislature, the CFO bill, the Governor or by an individual Senator. A big part of our problem is with the political structure and the resultant expectations of a flawed system. Senators are elected district at-large and must compete against each other every two years. This structure does not lead to nor can it generate the collective leadership needed to address our major and pressing problems. Indeed, it is a design that has failed and it will continue to fail unless changed. Although the last two elections saw radical swings in the legislative leadership, the institution continues to fail. The current minority in the 25th Legislature was the majority in the 24th Legislature. Moreover, I believe the 24th Legislature and the Governor severely damaged the public's confidence in elected officials by giving large executive pay raises without addressing some of the systemic problems that plagued government services. That unwise decision was followed by the Governor's decision to propose comparable pay raises for himself, the lieutenant governor and senators in a lame duck session of the Legislature. These acts of self aggrandizement, while union workers and other lower paid government employees were not being considered for raises, further eroded public confidence in local elected leaders. I also note that several senates (i.e., 18th Legislature through the 24th Legislature) and the corresponding governors failed to address structural problems, financial management system and the growing failures of basic institutions in the government.

The 25th Legislature was elected to set our ship (the territory) on the right course. As a collective group we have tried by passing a 2004 budget that was realistic and fiscally responsible. However, due to the structural issues stated above we failed to override the Governor's veto of the 2004 Budget. Nonetheless, revenues are up over 30% from last year but we are still in deep fiscal crisis. This is an election year for senators. As it is with Congress, no collective elected body is willing to make major changes in election reform or other revisions to government structure during an election year. Moreover, to expect the institution (USVI senate) to assume control of our finances through the 2005 budget by making reductions in spending or reductions in personnel or to make changes in how the government negotiates



or interacts with the unions, is unrealistic. Consider that, at this time, it would be asking too much from the USVI senate to take over the purse strings of our government, through the post audit division of the Legislature working with the OMB. Two year senate terms skew the balance of power needed between the three branches of our government to make our system work. Senators are crippled during every other year when faced with the task of campaigning. Therefore, the delegate's focus on the executive branch in her bill rightfully takes into account this imbalance and proposes a viable solution without completely disrupting the existing structure.

I hope it is clear why at this time I support the delegate. I do not believe we are positioned politically to help ourselves. Moreover, I do not see this bill as taking away any of the duties and responsibilities of our elected leaders or that which I was elected to do. Indeed, it is in harmony with what I believe every household, community and government should follow and that is to have spending limits that are within your means. By giving the Legislature spending limits we can avoid senators making appropriations and deals with other senators that are fiscally irresponsible. At this time I must refer to articles that I have published that relate to the bill. Since becoming a senator I have used the pen to express ideas and opinions on issues of public concern. See attached Russell Reports. Additionally, I attach a copy of a drafting request I made in the 25th Legislature in an effort to have an independent entity assume temporary control of government fiscal management.

Before I conclude, I must address my view of the opposition to the CFO bill. The opposition appears to be steeped more in emotionalism and the need for an identity rather than the practical reality of where we are politically and how mature we are as a territory. Important policy decisions that affect the territory are adopted without any research, public hearings or legislative debate. Sometimes the need for the territory to call something its own and the emotionalism attendant to such thing is blinding.

Similarly, opponents may be attached to the notion of self control, despite its obvious failures and the fallacy of such an idea. Our problems are systemic. Our problems existed for several years before the residents objected. Now after several years of failure and the continued festering of these problems, the Delegate proposes a temporary solution for fiscal management that is workable and necessary.

In closing let me state that the brief analysis above, along with the supporting documents attached, indicate that our territory is in need of immediate assistance to avoid any further economic and social deterioration. Clearly, this bill is meant to directly address the prevailing notion that our problems are a result of misplaced priorities and chronic mismanagement of available funds. Nonetheless, we need more. I believe that this U.S. Congress in its wisdom should consider, along with H.R. 3589, provisions in its budget providing resources to alleviate the unmanageable debt now experienced by the Virgin Islands government. When the measure is adopted, consider appropriating funds to the Virgin Islands to alleviate the child poverty identified. Consider aid for infrastructure upgrade, maintenance and repair through federal agencies and available federal resources which could transform our Virgin Islands into an exemplary community. Thank you for this opportunity and may god bless us all.

[NOTE: Attachments to Senator Russell's statement have been retained in the Committee's official files.]

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Mr. RENZI. Mr. Redfield?

**STATEMENT OF HOLLAND L. REDFIELD, II, NATIONAL COMMITTEEMAN, UNITED STATES VIRGIN ISLANDS REPUBLICAN PARTY**

Mr. REDFIELD. Thank you, Mr. Chairman. On page two in the first graph, I just for the record want to change a number. You have a figure of 108,000 is per capita. It is instead of \$1,058.81, it is \$9,200, because you did swear me in and I certainly don't want you to find me in contempt.

[Laughter.]

Mr. RENZI. Thank you, sir. We will change that.

Mr. REDFIELD. My name is Holland Redfield, National Committeeman of the Republican Party of the Virgin Islands and six-term Senator in the Virgin Islands Legislature. On behalf of

the Republican Party of the Virgin Islands and thousands of Virgin Islanders who could not be here, I want to thank this Committee for the opportunity to place on record the position of the Republican Party on H.R. 3589, sponsored by Delegate Donna Christensen. And let me add that I would like to thank the Delegate for her political courage in sponsoring this vitally needed legislation.

Mr. Chairman, I had mixed feelings in stepping into the middle of this issue as it has become a very contentious and emotional proposal. There appears to be a lack of reasoning amongst those who are in opposition of this legislation. It is ironic that the greatest debate is taking within the Democratic Party of the Virgin Islands.

There is no question when anybody looks at this issue that this government is on the brink of bankruptcy. The institutions that are charged with the responsibility of sound fiscal management clearly have failed.

Mr. Chairman, this is not a partisan issue. Finger pointing will not make it go away. The financial survival of the territory is at stake. Currently, our deficit is between \$80 and \$100 million per year. Our accumulated debt is \$1 billion. Our unfunded liability to the government retirement system is approaching \$1 billion. Our per capita debt based on a population of 108,000 is approximately \$9,200 per person, giving the Virgin Islands the distinction of one of the highest per capita debts in the nation.

Just last Friday, the Water and Power Authority had to borrow \$5 million to pay fuel costs to avoid interruption of service, and on the same day, our hospitals in St. Thomas threatened to close their doors if a dispute with the central government for millions of dollars was not resolved.

Clearly, the Government of the Virgin Islands is in denial. One cannot correct a problem unless there is a political will and intestinal fortitude to make hard decisions. It is unfortunate that those within their means, the constitutional authority to correct these problems, have merely compounded these problems over a period of years by putting their heads in the sand.

There has been a strategy of borrowing ourselves back to prosperity, which is contrary to any logical economic theory. To underscore this, on two separate occasions, we have had to borrow millions of dollars for our operating budget just to meet payroll.

Here is what the politicians are faced with. There are three solutions. You increase revenue by taxation, which has become politically unacceptable and economically impractical, or you cut expenditures. With a budget of over 90 percent dedicated to personal services, clearly, that means layoffs. Or the third, option, which I believe is the most acceptable, that of growing our way out of this problem. That has become difficult in a community that has historically great difficulty at arriving at a consensus and accepting change. We just say no to change.

The leadership has not in the past been able to balance these three options, and without H.R. 3589, clearly, our staggering deficit will continue. There are those that are going to testify that they are adamantly opposed to this legislation. Their underlying argument is, we can solve our problem ourselves, that outside interference in the internal affairs of the Government of the Virgin

Islands is unwelcome. Let there be no mistake. This legislation will be fought to the death by its detractors.

Clearly, this legislation is not a new idea. Other communities have had to face fiscal problems, such as Washington, D.C. and New York City. The same resistance and the same arguments that you are going to hear today will echo in these halls.

The Republican Party in the Virgin Islands is in support of this legislation on principle. However, we feel the legislation has not gone far enough. We feel the Secretary of the Interior should select the CFO. It is our strong belief that the traditional advice and consent verbiage should be left out of this legislation. The independence of the CFO would be largely left at the mercy of the same local politicians who have gotten us to this point and created the problem through their inaction.

As a former legislator, I understand that good politics is the art of compromise, and further, for this legislation to work, all stakeholders must be on board. I want to make it clear that there is enough blame to go around, including myself as a former Senator. Previous and current administrations have made significant efforts to address these problems. Governor Turnbull has made extraordinary efforts to have expenditures more in line with revenues. The Legislature, when confronted with the chief executive acting responsibly, the Legislature has overridden the Governor. Unfortunately, the Legislature in the past and present, because of limited insulation, have made easy choices based on their electability.

In that light, I propose for your consideration an amendment that could lead to a compromise. After this proposed legislation has been fine tuned, there should be an amendment to create a provision that will encompass a sunrise and sunset provision, that would give the executive and legislative branches of government an opportunity with 180 days to bilaterally balance the budget and institute corrective legislation to address the economic crisis.

Mr. Chairman, it is my recommendation within the context of this legislation that the Virgin Islands Government and the U.S. Government enter into a Memorandum of Understanding that will set forth these thresholds and targets to be considered acceptable. If the Virgin Islands Government meets these requirements within 180 days, the legislation would not take effect. If they fail to meet these requirements, the legislation would automatically be triggered.

I strongly believe that this should satisfy all parties regarding this legislation. Those that are convinced that we don't need this legislation will have an opportunity to act responsibly and prove it. For those that are in support of this legislation and want it to go into effect immediately, they will know that if the legislative and executive branches of government cannot meet these requirements, that the bill will have its full force and effect after 180 days. I believe this is a win-win situation for all the stakeholders in the Virgin Islands.

In closing, Mr. Chairman, the Virgin Islands people are a very proud, hard-working people. We have suffered two decades of natural disasters in the form of hurricanes and Stateside recessions that have hit our tourism industry hard. With the help of this Congress, our best days are yet to come. Thank you very much.

Mr. RENZI. Mr. Redfield, thank you for your statement and your passion.

[The prepared statement of Mr. Redfield follows:]

**Statement of Holland L. Redfield, II, National Committeeman,  
Republican Party of the Virgin Islands**

My name is Holland L. Redfield, II, National Committeeman of the Republican Party of the Virgin Islands and a former 6-term senator in the Virgin Islands Legislature. On behalf of the Republican Party of the Virgin Islands and thousands of Virgin Islanders who could not be here, I want to thank the committee for this opportunity to place on record the position of the Republican Party on Bill No. H.R. 3589 sponsored by Delegate Donna Christian Christiansen, and let me add that I would like to thank the delegate for her political courage in sponsoring this vitally needed legislation.

Mr. Chairman, I had mixed feelings in stepping into the middle of this issue as it has become a very contentious and emotional proposal. There appears to be a lack of reasoning among those who are in opposition to this legislation. It is ironic that the greatest debate is taking place within the Democratic Party. There is no question when anyone looks at this issue that this Government is on the brink of bankruptcy. The institutions that are charged with the responsibilities of sound fiscal management clearly have failed.

Mr. Chairman, this clearly is not a partisan issue. Finger pointing will not make it go away. The financial survival of this territory is at stake. Currently, our deficit is between 80-100 million dollars. Our accumulated debt is around 1 billion dollars. Our unfunded liability to the Government Employees Retirement System is approaching one billion. Our per capita debt based on a population of 108,000 is \$9,200 per person, giving the Virgin Islands the distinction of the highest per capita debt in the nation. Just last Friday, our Water and Power Authority had to borrow 5 million dollars to pay fuel cost to avoid interruption of services and on the same day, our hospital on St. Thomas threatened to close their doors if a dispute with the central Government for millions of dollars was not resolved.

Clearly, the Government of the Virgin Islands is in denial. One cannot correct this problem unless there is political will and intestinal fortitude to make the hard decision. It is unfortunate that those that have within their means the constitutional authority to correct these problems have merely compounded this problem over a period of years, by putting their heads into the sand. There has been a strategy of borrowing ourselves back to prosperity, which is contrary to any logical economic theory. To underscore this, on two separate occasions we had to borrowed millions of dollars for our operating budget, just to meet payroll.

Here is what our politicians are faced with. There are three solutions. You increase revenues by taxation, which has become politically unacceptable and economically impracticable; or cut expenditures, with a budget of over 90% dedicated to personal services. Clearly that means layoffs, or the third option which I believe is most acceptable, that of growing our economic base.

That has become difficult in a community that has historically great difficulty at arriving at a consensus and to accept change. We just say no to change. The leadership has not in the past, been able to balance these three options and without H.R. 3589, clearly our staggering deficit will continue. There are those that are going to be testifying that they are adamantly opposed to this legislation. There underlying argument is that we can solve this problem ourselves. That outside interference in the internal affairs of this Government is not welcomed. Let there be no mistake, this legislation will be fought to the death by its detractors.

Clearly, this legislation is not a new idea. Other communities have had to face similar fiscal problems such as Washington D.C. and the City of New York. The same resistance and the same arguments that you are going to hear today will echo in these halls.

The Republican Party of the Virgin Islands is in support of this legislation in principle. However, we felt that this legislation has not gone far enough. We feel that the Secretary of the Interior should select the CFO. It is our strong belief that the traditional advice and consent verbiage should be left out of this Legislation. The independence of the CFO would be largely left to the mercy of the same local politicians who have gotten us to this point and have created this problem through inaction.

As a former legislator, I understand that good politics is the art of compromise and further, for this legislation to work, all stakeholders must be on board. I want to make it clear that there is enough blame to go around, including myself as former

legislature. Previous and current administrations have made significant efforts to address these problems. Governor Turnbull has made extraordinary efforts to have expenditures more in line with revenues. The legislature, when confronted with the Chief Executive, acting responsibly, the legislature has overridden the Governor's veto. Unfortunately, the Legislatures, past and present, because of limited political insulation, have made the easy choices based on their electability. In that light, I propose for your consideration, an amendment that could lead to a compromise.

After this proposed legislation has been fine tuned, there should be an amendment to create a provision that will encompass a sunrise and sunset provision. This would give the executive and legislative branches of the Government an opportunity within 180 days to bi-laterally balance the budget, and institute corrective legislation to address this economic crisis.

Mr. Chairman, it is my recommendation that within the context of this legislation that the Government of the Virgin Islands and the U.S. Government enter into a Memorandum of Understanding that will set forth the threshold and targets that would be considered acceptable.

If the Virgin Islands Government met these agreed upon requirements, within 180 days the legislation would not take effect. If the Government failed to meet these requirements, the legislation would automatically be triggered.

I strongly believe that this should satisfy all parties regarding this legislation. Those that are convinced that we don't need this legislation will have the opportunity to act responsibly and prove it. For those that are in support of this legislation and wanted to go into effect immediately, they will know that if the Executive and Legislative Branches of the Government cannot meet these requirements that the bill will have its full force and effect after 180 days.

I believe that this is a win-win situation for all the stakeholders in the Virgin Islands. In closing, Mr. Chairman, the Virgin Islands people are hard working and proud. We have suffered two decades of natural disasters in the form of hurricanes and a stateside recession that has hit our tourism industry hard. With the help of this congress, our best days are yet to come.

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Mr. RENZI. I move to Mrs. Christensen for questioning.

Mrs. CHRISTENSEN. Thank you for your testimony. Thank you, Mr. Chairman.

Senator Russell, I am going to go to you first.

Senator RUSSELL. Yes.

Mrs. CHRISTENSEN. As a member of the 25th Legislature, do you feel that you have an adequate and accurate picture of the finances of the Virgin Islands, enough to make sound decisions?

Senator RUSSELL. The answer is no, and I believe that your bill attempts to solve some of that problem. I am part of the Financial Committee, Finance Committee of the Legislature, and part of the problem we have had is getting accurate information from the executive branch in a timely manner. We have had to postpone meetings. We have had to wait on a lot of information. And sometimes when we are having committee meetings, it appears that the information is not readily available for us to make our analysis and evaluation.

I think what your bill does, and I disagree with my colleague, Senator Redfield, former Senator Redfield, because I don't believe that the bill should go farther. I think you have taken into consideration the balance that needs to be done to get a CFO in place and still recognize the need for self-governance and policies to be made by elected officials.

But I think your bill addresses that. That is why a CFO is needed at this time, because that imbalance of power that I mentioned earlier is precisely how the executive branch has been able to stymie the efforts of the legislative branch in trying to formulate fiscal policies and dealing with fiscal responsibility.

Mrs. CHRISTENSEN. And you understand, I am sure—a lot of times, the question comes up, what is cause, but if the CFO is mandated in the bill to report in 6 months and then quarterly, if they don't report to you, if the Legislature were to call on them and say, where is your quarterly report, that that would be cause for that person to—

Senator RUSSELL. Exactly, and I think your bill takes into account the fact that accountability and transparency is part of what the people of the Virgin Islands really want with the management of the money. The reporting aspect of the bill quarterly is cause, because a failure to comply with the statute is cause for removal. So I don't see it as setting up a fiefdom for a financial officer to control the policies of the government. I see it as having the necessary mechanisms to remove that person if they don't comply with the measure as drafted.

And let me just state that the Chief Financial Officer as I see it works in conjunction with the structure that we have in place. I don't see the superceding. I see it as working in conjunction, and the only real, I would consider, strong effort in dealing with our fiscal management is to set spending limits. That is serious. But I think we need that right now.

Mrs. CHRISTENSEN. I wanted to ask you another question in your capacity as Chair of the Committee on Education for the 25th Legislature, because you have had an opportunity to come up and meet with the U.S. Department of Education officials here and I am sure you have heard as I have heard that, basically, the issues that they have with the Department are being resolved pretty well, but that financial issues remain outstanding.

We are under a compliance agreement. We are a little more than halfway, maybe, into that agreement. Do you believe that without a bill such as this that we will meet the requirements of that compliance agreement, and if not, what do you think the impact would be on the education of our children?

Senator RUSSELL. Well, let me begin. Why I stated the Kids Count information, that is data that is going in the opposite direction to what maybe the Governor and the President of the Legislature stated.

Second, the Education Department is having problems with its fiscal management and its fiscal management system of the territory, and some of the problems that we are having is the Federal monies are coming down. They are not being tracked properly because of the financial management system. But more importantly, there is some, I would consider, effort by the U.S. Department of Education to really assist. But because we don't have a system in place, a financial management system, it is sort of beating a dead horse.

And I don't believe that under the current structure that we are going to comply with everything of the compliance agreement. I think we have problems with it. So I see this as aiding us in meeting some of the requirements of the compliance agreement, especially for education. And if we don't meet the requirements, our education system will continue on a downward spiral because of lack of resources and lack of actually funds to promote what the education system is set to promote.

So I see your bill, Congresswoman, as helping not only in the financial area, but in education, health, and a lot of other areas that we need financial resources and the proper management of those resources. Thank you very much.

Mrs. CHRISTENSEN. The Chairman has yielded to me a minute of his 5-minute time to ask former Senator Redfield a question.

Senator, you make a recommendation that H.R. 3589 should be amended to give the executive and legislative branches of government of the Virgin Islands an opportunity to bilaterally balance the budget and institute corrective legislation to address this economic crisis. I would ask you, in your experience as a former six-term member of the V.I. Legislature, what would be the result, do you think, if the Committee adopted your recommendation, and I would like you to go beyond 180 days to maybe project for 5 years into the future. What—

Mr. REDFIELD. Congresswoman, let me just say, if I was to bet on it, they wouldn't do anything. However, maybe with this hanging over the folks that have to make these decisions it is basically putting them in a position where you either do it or you are going to get this legislation. And I say that because, you know, this is a first step, and as I have put on record, I don't think it went far enough.

I anguish myself personally over the issue of self-determination. But if you take that imbalance of the consequences that we are facing and the tremendous pain in the community, the helplessness and hopelessness amongst the community, I think the political system, the executive and legislative branches of government are totally out of step with what the people are thinking. They have lost their confidence in the government, clearly, because time after time we end up in the same position that we have before and it is distressing.

What will happen if this goes into effect? I think it is a step in the right direction. I think you are going to get a tremendous amount of attention in this process, but I will tell you one thing. If I was a political leader elected today, I would welcome this because there are so many things in here that are so difficult to do, and I mention in my testimony insulation, that you could feel relieved that somebody is going to come in here, because the choices that our leaders have today are just—I mean, they are staggering.

You don't get elected by cutting a budget to the point when you have 90 percent of it and you have people that are working for you and they are affected in their jobs. You don't tax a community that is taxed to the point where they can't even see straight.

And again, as I say, the third option, because of the dynamic of the Virgin Islands, it has been very difficult to develop consensus when we are dealing with economic growth in the Virgin Islands. Congresswoman, you know that. So what do they have? Their options are limited.

And I am speaking from the outside looking in, but, of course, having six terms of being in there confronted with these problems, the Christmas tree effect every time you get to the Legislature. This Legislature is going to veto the Governor's holding in control, holding this \$9 million, they are going to veto this. If you were to

ask me, is the Pope Catholic? Yes, he is. We are going to veto this. We are right back to the same situation.

Senator RUSSELL. You mean override.

Mr. REDFIELD. Override it, I am sorry.

Mr. RENZI. Do you have a closing?

Mr. REDFIELD. Going to override the veto.

Mr. RENZI. Thank you. Do you have a closing?

Mrs. CHRISTENSEN. Basically, I just wanted to thank those who came a fairly long distance, maybe not as far away as Guam, to testify both on behalf of the bill and in opposition to the bill. It has not really been easy for me to bring the bill, nor has it really been easy for me to watch the fiscal health of the territory decline and go through crisis after crisis since I have been in office.

But as I reflect on what led me to the point today and the discomfort of my personal situation with regard to what is before us today, I am reminded of a quote by Dr. Martin Luther King in which he said the ultimate measure of a man, and, I might add, a woman, is not where he or she stands in moments of comfort and convenience but where they stand in times of challenge and controversy.

Mr. Chairman, we are indeed facing some challenging and controversial times as you have well heard this morning in the Virgin Islands. Indeed, the action or inaction of those of us in leadership today will have a profound impact for the future.

I thank you for holding this hearing and giving us the opportunity—

Mr. RENZI. We are grateful for your insights.

Ms. BORDALLO. Mr. Chairman, I just want to thank Senator Russell and former Senator Redfield for their very excellent testimonies this morning. Thank you.

Senator RUSSELL. Thank you.

Mr. REDFIELD. Thank you.

Mr. RENZI. Thank you all very much. You are both dismissed, and again, thank you very much.

Senator RUSSELL. Thank you.

Mr. REDFIELD. Thank you.

Mr. RENZI. Without any further business before the Committee, the Committee stands adjourned.

[Whereupon, at 12:14 p.m., the Committee was adjourned.]

