REPORT ON THE POTENTIAL IMPACT ON GVI FINANCES OF THE PROPOSED MINIMUM SALARY FOR PUBLIC SECTOR EMPLOYEES, AS REQUESTED BY GOVERNOR ALBERT BRYAN JR

Bill No. 36 0053

The USVI Legislature passed Bill No. 36 0053 to increase the minimum wage for employees in the central government, semi-autonomous agencies, and independent instrumentalities from $27K to $35K, effective October 1, 2025. An action such as this is usually premised on prudent discussion with the Executive branch and guided by a compensation study to ensure effective government operations during a time of stringent financial resources. The Government of the Virgin Islands (GVI) recognizes the importance of ensuring that employees receive a living wage. However, careful consideration of the implications of this unexpected development is necessary, as it could place additional pressure on the territory's financial resources. We are committed to maintaining the government's ability to serve the public effectively and sustainably while navigating these challenges.

The proposed implementation of a minimum salary of $35,000 is projected to impact approximately 679 central government employees who are currently earning below this threshold, based on salary ranges provided by the Department of Personnel (DOP). Furthermore, it will lead to salary compression, necessitating adjustments for an additional 5,248 employees. It is essential to note that this initial salary estimate does not account for the additional 4,122 employees working in semi-autonomous agencies and independent instrumentalities, who would also expect the government to allocate the necessary funds to address their salary adjustment needs. When accounting for fringe benefits amounting to 46% and an increase of 3% in GERS contributions, the total salary payroll is anticipated to rise significantly. Additionally, the implications for collective bargaining agreements and increases in health insurance costs will pose further challenges that the government must address.

Employees earning below $35,000 currently receive an hourly wage of $13.00. To raise their salary to $35,000, a pay increase of 30% will be required. This action could lead to expenditure cuts, deficit spending, job losses, fiscal sustainability challenges, and the growth of territorial debt. A sudden infusion of cash in the economy could also lead to higher levels of inflation due to people's ability to purchase goods and services more freely at a higher price. It could also affect private sector employment, resulting in job losses and reduced productivity as businesses are forced to raise wages while increasing their costs for goods and services.

In FY2025, a total of $427.4 million in individual income taxes was collected, a 1% increase from FY2024. Although an increase of approximately $6.1 million in individual taxes from indirect and induced spending is expected due to raises, this amount will not be sufficient to cover the expanded costs. As a result, additional borrowing will be necessary to accommodate the adjustments.

The full implementation of the measure at this time may also result in reduced government spending in areas such as education, health, energy, infrastructure, and waste management. Increases in pension liabilities, over the long term, could also put greater stress on GERS' ability to meet and sustain future payout demands. GVI has a responsibility to manage its long-term fiscal health and ensure the ability to meet public concerns while remaining solvent.

The estimated impact of this measure on government finances, excluding agencies and instrumentalities, is significant. Currently, the government payroll totals $488.9 million. The implementation of Bill No. 36,0053 is expected to increase the government payroll expense by $40 million, raising the total to $529 million. This represents an overall increase of 8.2% in payroll and fringe benefits, as well an additional 3% in Government Employees Retirement System (GERS) contributions.

The calculations for this total were made by adjusting the salaries of employees earning $35,000 and above based on the average increase for those earning $35,000 and below, which amounts to $4,500. It is projected that implementation of the Bill would add an estimated $120.2 million and $200.4 million to the territorial debt over the next three and five years, respectively, unless government revenues improve or other efficiency measures are implemented.

Recommendations:

1. GVI believes that all employees, irrespective as to sector, should receive a salary and benefits package consistent with a living wage.

2. Any salary adjustments should be tied to a scientifically conducted compensation and classification study to determine the most appropriate scales, levels of compensation, and implementation options that will ease economic stress while containing inflation and ensuring effective government operations.

3. Due to the significant number of employees impacted by the legislation, it may be prudent to adopt a tiered implementation of ten percent annually over three years or six percent annually over five years. This approach may be more appropriate to meet the needs of employees while maintaining the government's ability to meet its obligations and maintain fiscal discipline.

4. Adequate fiscal planning and employment flexibility are needed to effectively manage the wage bill of the government.

5. Competitive compensation, inclusive of locality pay, may be promoted to attract and retain the best-in-class employees in the public sector.

6. The consolidation of certain functions, services, and locations may lead to increased efficiency and productivity, while encouraging more private sector employment.

7. The Department of Personnel and the Bureau of Economic Research should work together to collect compensation data and employment levels to better identify the sources of compensation pressures and recommend necessary wage reforms.

Source: Governor’s Financial Team (DOP, OMB, DOF, BER)