

**VIRGIN ISLANDS ECONOMIC DEVELOPMENT AUTHORITY
TESTIMONY TO THE COMMITTEE ON FINANCE
FISCAL YEAR 2015 BUDGET HEARING
30th LEGISLATURE OF THE VIRGIN ISLANDS
JULY 10, 2014
1:00 P.M.**

Good afternoon, Chairman Graham, members of the Committee on Finance, other members of 30th Legislature present, fellow testifiers, ladies and gentlemen gathered here, and the viewing and listening audiences. I am Percival E. Clouden, Chief Executive Officer of the Virgin Islands Economic Development Authority (the "Authority" or "VIEDA"). With me today are Jennifer Nugent-Hill, Assistant Chief Executive Officer and Chief Operating Officer, Ernest Halliday, Director of Administration and Finance, and Attorney Tracy Lynch Bhola, Legal Counsel. Other members of the Authority's management staff, to include: Margarita Benjamin, Director of Applications; Nadine Marchena Kean, Director of Enterprise Zone Commission; Monique Samuel, Acting Director of Lending; Frederick Handleman, Special Assistant to the CEO; and Kelly Thompson-Webbe, Budget and Financial Analyst are present in the chamber and are available to respond to inquiries.

We are here today to present the Virgin Islands Economic Development Authority's Fiscal Year ("FY") 2015 Budget for your consideration and that of your honorable colleagues.

The Authority's FY 2015 budget request of \$4.9 Million Dollars represents a reduction of \$18,260 compared to the amount appropriated by the Legislature in FY 2014. This budget contains no frills or buffers and it is the bare minimum that is necessary to successfully carry out the mandates assigned to this Authority.

It is a spending request that compels us to focus on essential priorities and make the difficult choices that will bring the greatest rewards to the Territory. To this end, the Authority intends to build upon initiatives that were started in FY 2014 and prior years, which focused on economic growth, revitalization and sustainability.

We will now share with you our most important achievements during the period October 1, 2013 – June 30, 2014:

FINANCIAL REPORTING AND RESPONSIBILITIES

The Authority's current performance shows steady improvement in every aspect of its operations in stimulating the economy, creating jobs, and increasing government revenues. In fulfilling these important responsibilities, the Authority relies on a financial management system that is above reproach and meets standards recognized by those who scrutinize our financial information, including federal agencies that fund some of the Authority's important initiatives. We continue to receive "unqualified" audit opinions from external auditors, which indicate that our financial statements are free from material misstatements and can be relied upon.

STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI) PROGRAM

The State Small Business Credit Initiative Program, also known as SSBCI, is a \$13.1 Million federal grant from the U.S. Department of the Treasury. This grant supports loan enhancements and performance bonding in partnership with our local banks. The first tranche of \$4.3 Million was received approximately two (2) years ago. Because of our consistent efforts in meeting with lending officers, we are beginning to see increased interest in the SSBCI program. The Authority continues to work diligently with the local banks and the business community in order to increase program participation and spur economic development.

By the end of June 2014, banks in the Territory approved and closed 24 collateral enhancement and loan guarantees for a total of over \$3 Million. These loan enhancements have enabled businesses to create 37 new jobs, retain 215 jobs, and inject an estimated \$8.6 Million in direct economic activities.

We have requested the second federal drawdown of \$4.3 Million and the U.S. Treasury Department has assured us that the funds will soon become available to provide additional collateral enhancements and guarantee loans to more local businesses.

VIEDA DISASTER SMALL–MIDSIZED ENTERPRISES INCUBATION PROGRAM

Last year the Authority was successful in securing \$1 Million in grant funding from the U.S. Department of Commerce Economic Development Administration. This amount is matched by \$200,000 allocated from the Authority's annual operating funds spread over the two (2) year life of the grant. Incubation Program funds provide technical assistance to the program participants and aids in the administration and management of the incubator program at the William D. Roebuck Industrial Park on St. Croix.

Through continuous collaboration with other community stakeholders, including the Small Business Development Center (SBDC) and the Small Business Administration (SBA), the Incubation Program interviewed over 30 entrepreneurs in various business sectors. Based on these interviews, 11 applications were received, 10 of these were approved.

The approved applicants represent a broad spectrum of business sectors that include solar installations, agriculture, aquaponics/hydroponics, eco-resort, restaurant, wellness center/pharmacy, and software solutions. The goal is to help grow businesses by providing the necessary professional support services thus contributing to the competitiveness of the local economy, stimulating entrepreneurial spirit and job creation.

ECONOMIC DEVELOPMENT COMMISSION (EDC)

The Economic Development Commission Tax Incentive Program is critical to the Territory's sustainability, economic growth and development. Many governments in the region face pressure to enhance these programs to compete with tax incentives offered in other jurisdictions. Competition is inevitable. A stagnant or shrinking economy offers no inducement for new investments. Hence, the EDC Program must be protected and supported to further capitalize on the gains that have been made thus far.

We have appeared three (3) times before the Senate, regarding the amendments to the EDC Program Law, and are still awaiting final approval. I am reminding this body that any further delays on action towards the improvement of the EDC Program affects our competitive advantage.

The Economic Development Commission consists of two (2) related functions – the Applications Unit which is the first point of contact by a business that wants to apply for EDC benefits and the Compliance Unit which monitors EDC beneficiaries to ensure compliance with the terms and conditions of their EDC Certificates and other requirements of the law.

EDC APPLICATIONS UNIT

During the first nine (9) months of this fiscal year, 13 new applications were filed with the EDC program, representing 110 potential new jobs, approximately \$7 Million in wages and an estimated \$12.7 Million in capital investments. These Applicants also represent the potential for the US Virgin Islands to realize approximately \$7 Million in taxes over a 5-year period. Also received were applications for 6 extensions, 4 modifications, and 1 transfer.

Within the EDC Division, 16 Investors' applications were considered. Some of these investors were in the areas of designated service businesses, financial service providers, and manufacturers. It is important to note that these investors were being courted over a period of time, some as far back as 2-3 years. It takes a while to convince some investors to make the move and we are happy for those who did.

Within FY 2014 to date, a total of 11 investors chose to begin their tax incentive benefits. Based upon the commitments made, the Territory will realize employment of 53 full-time employees, approximately \$51 Million in capital investments, and annual charitable contributions of approximately \$490 Thousand. It is also estimated that the Territory will potentially receive direct taxes over a 5-year period of more than \$11.1 Million should the business operations materialize, as projected.

The Eligible Virgin Islands Suppliers Program is also administered by the EDC Applications Unit. In FY 2013, this program was directly responsible for \$164 Million in direct local purchases by EDC Beneficiaries and we continue to encourage other small businesses in seizing the opportunity to be a part of this program. In fact, we had a total of 26 Virgin Islands small businesses which were approved as new Eligible Virgin Islands Suppliers. Therefore, there are now 347 approved Eligible Virgin Islands Suppliers in the program. Training seminars on how to do business with EDC companies were conducted for Eligible Virgin Islands Suppliers in both districts. This event provided small business suppliers the opportunity to network with representatives from EDC companies and offered information to local suppliers on topics such as Economic Development and Lending Programs, the Intricacies of Hotel Procurement, Small Business Marketing Strategies and Improving Project Management Skills, as it relates to delivering services to EDC companies.

EDC COMPLIANCE UNIT

As part of the compliance process, the Unit's approach is that of client care for success in the EDC Program. As such, the Compliance Team engages in a proactive manner with EDC beneficiaries to ensure that they adhere to the requirements of the EDC program. During this fiscal year, EDC Beneficiaries' activities were reviewed to ensure compliance with the obligations of their EDC agreement. Year to date, 24 EDC Beneficiaries' compliance reviews were completed, and 9 compliance orientations were conducted for new companies regarding the expectations of their EDC agreement. The compliance review process is comprehensive and very detailed. It involves reviewing reports from multiple government agencies and among others confirming workforce hiring, capital investment, proof of employee benefits, and educational contributions. Whenever there are findings of non-compliance, we deal with them through corrective actions, which may include fines and penalties. In addition, there were 37 outreach/beneficiary care visits undertaken by the compliance staff to establish a relationship with our EDC partners. These visits allow the staff to gain first-hand knowledge of the Beneficiaries'

business practices, and provide guidance, if necessary, to meet the conditions of their EDC agreement.

We are continuing to find ways to work with our EDC partners by fostering friendly business relations and dialogue. One way of doing so is through the annual Economic Development Commission Beneficiary Summits held in both districts. The EDC Task Force, which is comprised of related agencies, to include V.I. Department of Labor, U.S. Customs & Border Protection, V.I. Bureau of Internal Revenue, Office of the Lt. Governor, Department of Education, the University of the Virgin Islands and other partners have all impacted the successes of the summits.

ENTERPRISE ZONE COMMISSION

During FY 2014, the Enterprise Zone Commission (“EZC”) was charged with the community development aspect of creating a positive environment for an economic resurgence in difficult times. In order to accomplish the task, the unit re-evaluated its strategic plan and the technical implementation of its programs and services. We have accomplished much.

- **EZC Five-Year Strategic Plan.** We reviewed the way we have implemented the EZC mandate and although there have been successes, the economic conditions and the planning activities of the towns have changed since the last EZC plan was created. With efficiency and effectiveness in mind, we have created a new five-year strategic plan. This plan provides a clear path that will enable us to better serve the people of the enterprise zones, Frederiksted, Christiansted, Savanne & Downstreet, and Garden Street & Upstreet.

Town & Neighborhood Plans. Throughout this fiscal year, the Enterprise Zone Commission has been working with the residents and organizations of the zones to create the unique town/neighborhood plans that will guide us in how to move forward to improve each of our communities. In every case, it has been a transparent inclusive process with a clear goal in mind, that is to create an “implementable” plan that will be our roadmap to the economic, social, and architectural development of our towns and neighborhoods. This fiscal year, we completed the

Christiansted Community Plan with over 600 persons participating by voicing their thoughts and/or voting for their choice of a plan. Similarly, the Commission completed the Garden Street Community Plan with approximately 200 participants involved in a collaborative determination on a plan for their neighborhood. Additionally, a charrette was held for Upstreet as they have started their planning process and a charrette will be held for Savanne & Downstreet on St. Thomas by the end of this fiscal year.

- **Estate Planning Conferences.** The Enterprise Zone Commission held its 4th annual Estate Planning Conference in both districts this year. One of the greatest issues in the enterprise zones is the multiple ownership of properties and the probate issues that arise as a result. To address this major issue, VIEDA offered conferences to educate the public on estate planning. Attendees heard from practitioners who discussed many of the probate issues that exist today, setting the stage for residents to address their situation head on. Due to the standing room only crowd, a waiting list had to be created, which will be used for future events. This is why we step forward to request additional funding to satisfy the demand of our active participants. We continued to observe that our community needs to understand that unresolved probate issues and no estate planning regarding properties in the zones have economic impact when buildings and properties are left abandoned or in a state of disrepair.
- **Grant Funded Activities.** The unit has completed Scrape, Paint and Rejuvenate on two (2) buildings within Frederiksted and we are planning to complete two (2) more by the end of the fiscal year. In Savanne, the same program will complete two buildings and, to improve our first streetscape, we will be revitalizing buildings on Princesse Gade and General Gade. When completed, the total amount of expenditures will be approximately \$172 Thousand. This year has been a year of setting the stage for future growth but has not been without its disappointments. We have sought and

have not been successful in two major grants; the Rockefeller Resiliency grant and the Choice Neighborhood grant. We continue to forge ahead and by the end of fiscal year 2014 will have submitted a grant through US EDA to implement components of the community plans. We need approximately \$7 Million to begin the implementation of these Town & Neighborhood Plans. We recognize that our central government is cash strapped, and so we continue to search for benefactors throughout our community.

- **EZC Tax Credit Program.** The EZC has in the last five years assisted in incentivizing over \$5.2 Million in investments to revitalize 24 buildings. This represents 7 on St. Thomas and 17 on St. Croix. This fiscal year we have 4 new beneficiaries and 2 pending applicants representing over \$1.9 Million in investment to our enterprise zones. We are looking forward to the implementation of the EZC Plan and Commercial Zone programs.
- **Beneficiary and Stakeholder Seminars.** The Enterprise Zone Commission held its first beneficiary seminar which provided information on the new efficient compliance reporting format and offered a presentation on how to claim your credits through the Virgin Islands Bureau of Internal Revenue. We also saw the need to provide more practical information to our EZC Stakeholders (Our Town Frederiksted, Frederiksted Economic Development Association, Christiansted Community Alliance, etc.) and offered our first Stakeholder seminar. This seminar offered sessions entitled “501(c)3 and You” and “The Search for Funding.” This has set the stage for a more progressive and proactive role to be taken by our beneficiaries and our stakeholders towards our common goal of community development.

MARKETING AND PUBLIC RELATIONS

The key responsibility of the marketing and public relations efforts is to attract new corporate investment to the Territory, retain and grow existing companies, especially small and medium-sized

enterprises, and improve the Virgin Islands Economic Development Authority's image as it relates to the Authority's strengths, products, and services.

The Marketing and Public Relations Unit has been very much engaged and achieved important objectives during the first nine (9) months of this fiscal year. We implemented Phase Two of the Authority's public relations efforts through the radio show, "VIEDA Focus on the Marketplace", and the sponsorship of "Why Didn't I Think of That"- an inspirational segment about individuals who took bright ideas and turned them into successful business ventures. This Unit was able to complete some of the rebranding initiatives including the redesign of the EDC brochure, Beneficiary Profiles, program and target market related fact sheets, and our redesigned VIEDA website, which now also includes a specific microsite. The microsite is geared towards the EDC program, maximizing the search engine optimization of key words, such as "tax incentives", "investment opportunities", and "Made in the USA" brand. We are seeing increased visits on our website, as we monitor worldwide inquiries. The increase in the use of social media for information gathering by site selectors may result in us creating a VIEDA app for increased online presence. Lastly, we are launching the New Market Initiatives for the Captive Insurance Program with the development of the corresponding promotional material.

We are able to use our marketing dollars more effectively and efficiently by maximizing our marketing missions through the leveraging of high-level media exposure. The marketing team recently conducted a Governor's Mission in New York, resulting in five (5) editorial meetings with high-circulation business related media designed to deliver the message to a global business audience that the U.S. Virgin Islands offers one of the best business environments and tax incentive programs. These interviews were conducted with:

- **The Street.com.** Online Visitors/Month: 5.6Million
 - **This video was also reposted by the following channels** which translate into \$ 1.2 Million in advertising value.

- AOL
- Huffington Post
- NASDAQ
- Yahoo! Finance

We also had placement opportunities in the following media outlets:

- **International Business times.** Online Visitors: 3.2 Million
- **The New York Times.** Print Circulation: 1.8 Million. Online Visitors:16.9 Million
- **Barron's.** Print Circulation: .30 Million. Online Visitors: .7 Million
- **MarketWatch.** Online Visitors: 2.3 Million

Other marketing missions included: the U.S. Department of Commerce - SelectUSA program in Washington, D.C, where the marketing delegation received prominent exposure through our sponsorship of a key luncheon, which unexpectedly was graced by Barack Obama, President of the United States of America, as the keynote speaker. Equally important, the U.S. Virgin Islands has been afforded its own desk in the SelectUSA offices, to provide technical support to the USVI with marketing our Territory. We also participated in the Caribbean Shipping Association Meeting in Panama to explore the infrastructure and technology required to develop the transshipment-ready facility on St. Croix.

As a result of our effective marketing strategies throughout this year, the Authority hosted 11 potential EDC investors for site visits, demonstrating the valuable resources that can be made available to companies interested in expanding their investment to the Territory.

The Authority posted billboard signage at the St. Thomas and St. Croix airports.

LENDING DIVISION

I want to thank the Legislature for its support in renaming the Lending Division. Previously this division had two (2) distinct Units – the Government Development Bank (GDB) and the Small Business Development Agency (SBDA). Through the efforts of the 30th Legislature, these two (2) units were

merged and are now known as the Economic Development Bank. This will allow for better loan servicing, technical assistance and collection efforts.

During the first nine (9) months of this fiscal year compared to the same period last year, the number and dollar value of new loans increased. These improvements could be attributable to the vigorous efforts that we are making in marketing our lending products. Our Small Business Counseling Specialist has visited over twenty-nine (29) businesses on St. Croix, we have collaborated with the Small Business Development Center in making loan presentations to prospective clients and continue to make presentations at every opportunity to ensure that the word gets out to small businesses about the availability of our products and other offerings.

As a result of the number of loans approved so far in this fiscal year, approximately 108 jobs were saved and an estimated 101 jobs created. We are currently working with seven (7) existing small businesses and 10 start-up or new businesses to assist them with their financing.

The Economic Development Bank continues to experience a less than acceptable level of loan delinquencies. Within the last two (2) years, the division has taken steps in tackling this perennial matter. These steps include the revision of policies and procedures to conform with recommendations of the Inspector General Audit report and the engagement of aggressive collection efforts which include loan modifications, payment plans, collection agencies, and legal actions. These measures resulted in an overall in collections of more than \$600 Thousand during the first nine (9) months of this fiscal year.

The passage of the Economic Development Bank legislation, specifically Sections 5 and 6, allows the Bank to now accept collateral on its Micro-Credit Loans, which helps to improve collections and reduce delinquencies.

The Economic Development Bank is committed to improving its operations which include a loan system that can produce data in a real time environment for management discussion, analysis, and

decision-making. As such, we have concluded that the current loan software system, “Loan Ledger”, is outdated and will be replaced with “Portfol” - a lending software which is a robust loan portfolio management system designed specifically for economic development entities. Its main advantages include:

- Flexible loan payment scheduling for fixed, variable and adjustable rates;
- Local and Federal Government reporting requirements ;
- Data tracking for economic development including jobs and demographics; and
- Collateral tracking and follow up.

With “Portfol” in place, our lending staff will be able to provide better customer care services in the management and administration of our loan portfolios.

INDUSTRIAL PARK DEVELOPMENT CORPORATION

The Industrial Park Development Corporation (“IPDC”) is a public entity chartered to acquire and operate industrial parks in the Territory and to complement activities of the VIEDA. The IPDC does not receive any funding from central Government appropriations and is self-supported by revenues generated from its tenants.

There are two (2) industrial parks that fall within the authority of the IPDC – the William D. Roebuck Industrial Park in Frederiksted, St. Croix and the St. Thomas Industrial Park located in Estate Contant. The Industrial Park Development Corporation’s management team, under the supervision of the Park Superintendent, has the responsibility of maintaining the Industrial Parks.

During this fiscal year, the Corporation improved its cash flow through new tenants and reduced receivables by 17% compared to the same period last year, due to aggressive collection initiatives. Additionally, there were four (4) new lease agreements negotiated in this year that improved the occupancy level from 51% to 59%. It is our strategy to promote a business-friendly environment that creates employment opportunities.

FISCAL YEAR 2015 BUDGET PRORITIES

The FY 2015 spending plan that we submit to you is about setting priorities and making choices. There is a choice in the pursuit of the traditional path to economic development and one involving the undertaking of bold and courageous initiatives to get there. This budget is about both – we will build on the foundation that was laid to create and sustain economic opportunities and continue to pursue those initiatives that have already begun.

1. EB-5 Program

Possibly the most exciting new initiative undertaken this year was the entry of the U.S. Virgin Islands into the EB-5 arena. EB-5 is an Immigrant Investor Program administered through the United States Citizenship and Immigration Services (“USCIS”). The intent of the program is to stimulate the U.S. economy through job creation and capital investment by foreign investors. The Authority, in partnership with the American Regional Center Group (“ARCG”), is creating the first U.S. Virgin Islands EB-5 Regional Center for the purpose of creating a predictable investment environment to encourage foreign direct investment capital into projects in the U.S. Virgin Islands. In the USVI, EB-5 investors are required to invest a minimum of \$500 Thousand in a project in the Territory which will create at least 10 full time permanent jobs per EB-5 investor.

2. Trans-shipment Terminal Facility and Free Trade Zone Area

The groundwork has been laid for the possible development of a trans-shipment terminal facility on the island of St. Croix. The spin-offs from these initiatives have enormous potential for the creation of jobs in various industries and the establishment of St. Croix as a major commercial hub for the Eastern Caribbean, which should create additional opportunities for attracting new businesses and investments to St. Croix. There are critical steps which must first be taken to allow for this opportunity to become a reality. We are planning to advance those steps including some legislative action items.

3. Tax Increment Financing (“TIF”)

In 2008 the Virgin Islands Legislature passed the Tax Increment Financing Law. There is currently one TIF designated area in the Virgin Islands. The Developer is Caribbean Development Partners, LLC (CDP, LLC). The project, Island Crossings Shopping Center is a 43-acre development located along Melvin Evans Highway in Estate Barren Spot, St. Croix. In May of 2011, Home Depot and the Developer entered into a Ground Lease with a term of 20 years. Home Depot opened for business on September 14, 2011.

Currently, the developers of the TIF Island Crossing on St. Croix are negotiating with a national retailer and restaurant chain and are expecting to have agreements in place by the end of the year. Additionally, the developers and the Virgin Islands Waste Management Authority (VIWMA) have agreed on the construction of a pump station and sewerage system for the planned affordable housing development.

The Virgin Islands Economic Development Authority is analyzing and assessing other potential TIF areas and the projects appropriate for them.

4. Hotel Development

The VIEDA is active in the hotel development efforts of the Territory. The creation of hotel rooms has been a mandate for the people of the Virgin Islands, especially St. Croix, for a long time, and this has been critical to achieving this goal. In addition to marketing the EDC benefits available to hotel projects, we also discuss with developers the other programs available such as TIF, EB-5 and the Hotel Development Act. On Tuesday, July 8, 2014, we had our first hearing on a Bill making necessary amendments to the Hotel Development Act before the Committee on Economic Development, Agriculture and Planning. The original act sunsets in Fall 2014. The purpose of the sunset was to instill a sense of urgency. Due to the location limits and a mandatory \$500 Thousand contribution, the program

was not attractive to developers and investors. We are now seeing a renewed interest in the program with one on St. John, one on St. Thomas, one on Water Island and four on St. Croix, with one of those already starting an application but waiting for this Bill to become law. Potential developers are anxiously awaiting the passage of this Bill.

5. Captive Insurance

The VIEDA has recently been tasked with assisting the Lieutenant Governor's Division of Banking and Insurance with the marketing of Captive Insurance. This new task was added after initial budgeting was completed and therefore this critical marketing effort is not funded in our budget.

6. Marine Economic Development

The VIEDA is determined that the marine industry has a key role in our economic development strategy. Therefore, a marine economic development advisor was hired to:

- i. Develop a realistic plan with the Virgin Islands Marine Economic Development Council ("VIMEDC") for the creation of a sustainable marine technical school for the U.S. Virgin Islands.
- ii. Monitor, through the offices of the Virgin Islands Bureau of Economic Research ("VIBER"), all data pertaining to visiting vessels to the Territory as it pertains to marine tourism for the purpose of identifying growth potential.

CONCLUSION

In last year's budget submission, we indicated that no funding provisions were made to carry out the mandates of the TIF law, the Hotel Development law and the Sustainable Tourism Through Arts-Based Revenue Streams Act ("STARS") and there was no additional funding in our current year's request to support these programs. However, we continue to be efficient, shifting priorities in our budget to fund them, while executing the mandates of the Authority's four pillars: Economic Development Bank,

Economic Development Commission, the Enterprise Zone Commission and the V.I. Industrial Park Development Corporation.

We continue to perform at the highest level amidst fierce competition in attracting and retaining Economic Development Commission beneficiaries. We are able to do so through a dedicated staff and the constant monitoring, evaluation and analysis of our services, to ensure the greatest benefits to the residents of this Territory.

I take this opportunity to thank my dedicated and committed staff for their work, the VIEDA Governing Board for their continued guidance, Governor John P. DeJongh, Jr., Lt. Gregory Francis, and their team for their support and this body for the interest and support you have given us.

We are available for any questions you may have.

Thank you.