

Transforming the Economic Future of the U.S. Virgin Islands



Economic Development Commission

Economic Impact Analysis Report

June 2019

Analysis completed covering periods 2013 – 2015

Prepared by:

University of the Virgin Islands

Institute for Leadership and Organizational Effectiveness (ILOE)



Table of Contents

| | |
|--|---------|
| Executive Summary | Page 1 |
| Introduction..... | Page 6 |
| Part One: USVI Economic Development Council (EDC): Overview and Context | Page 8 |
| USVI financial sustainability | Page 9 |
| The broader regional context | Page 25 |
| Part Two: EDC as an Enterprise | Page 27 |
| EDC revenues | Page 27 |
| EDC as a job generator | Page 28 |
| Indirect and induced effects | Page 30 |
| Direct, indirect and induced effects of EDC spending..... | Page 30 |
| Contributions to Government revenues | Page 32 |
| Part Three: Developing Human Capital Employment of EDC Beneficiaries | Page 35 |
| Where EDC employers live | Page 35 |
| The impact of EDC employment on workers' earnings..... | Page 36 |
| Helping residents prepare for careers in key industries | Page 37 |
| Contributions to education..... | Page 37 |
| Part Four: The Role of EDC Companies by Category | Page 38 |
| Manufacturing & product assembly..... | Page 38 |
| Product assembly and repair | Page 38 |
| Hotel, recreation facilities, marina & transportation..... | Page 38 |
| Designated service businesses | Page 38 |
| Utilities and others | Page 39 |
| Part Five: Entrepreneurship and Economic Development | Page 40 |
| Developing a new generation of entrepreneurs..... | Page 40 |
| Supporting small business development through local purchases | Page 41 |
| Collaborating in economic development | Page 42 |
| Part Six: Outreach and Community Engagement | Page 44 |
| Charitable contributions..... | Page 44 |
| Education and youth development..... | Page 44 |
| A business resource for the community | Page 44 |
| Other community initiatives | Page 46 |
| Building a stronger economy | Page 46 |
| Part Seven: Contributing to the Development of the Region..... | Page 48 |
| Developing the region's human capital | Page 48 |
| Services that benefit the region..... | Page 48 |
| Manufactured Products | Page 49 |
| Business and community | Page 49 |
| Part Eight: EDC and the Future of the Virgin Islands' Economy | Page 50 |
| The growing impact of new business development and relocation | Page 50 |
| A stronger emphasis on entrepreneurship and innovation | Page 51 |
| A catalyst for economic development..... | Page 52 |
| Impact if the USVIEDC program did not exist for a similar three-year period..... | Page 52 |
| A stronger community | Page 53 |



Magens Bay, St. Thomas, USVI

Executive Summary

The United States Virgin Islands Economic Development Authority has made and continues to make a dynamic combined direct, indirect, and induced economic impact on the Territory. In an independent study conducted by the University of the Virgin Islands Institute for Leadership and Organizational Effectiveness (ILOE) it was revealed that the Economic Development Commission (EDC) program from 2013 through 2015 directly and indirectly accounted for the following:

- 19,308 Full-Time Equivalent (FTE) jobs in the USVI during that three-year period;
- More than \$1 billion¹ in wages and salaries; and
- More than \$1.4² billion in Territory-wide economic output. In addition, other revenue impacts during this period included:
 - \$309,446,213 in taxes and duties;
 - \$9,698,447 in charitable contributions.

Using data obtained from the **Virgin Islands Economic Development Authority (“USVIEDA” or “Authority”)**, the University of the Virgin Islands (**“University”**) in collaboration with Appleseed, Inc., a New York-based firm providing economic impact analyses and economic development studies, independently analyzed the direct, indirect and induced impact of beneficiaries of the **Virgin Islands Economic Development Commission’s (“EDC”)** tax incentive programs on the Territory’s economy in 2013, 2014, and 2015. For purposes of this analysis, we looked at the following:

- The beneficiaries’ direct impact represents the direct effect of their collective spending for payroll, purchasing and capital improvements on employment, wages and overall economic output in the U.S. Virgin Islands.
- Their indirect impact represents the effect on the U.S. Virgin Islands’ economy from spending within the Territory by the beneficiaries’ local contractors and suppliers.

¹ The total amount of wages and salaries over the period 2013-2015 was \$1,017,011,000.

² The total amount in Territory-wide economic output over the period 2013-2015 was \$1,480,968,000.

- Their induced impact represents the impact of household spending by the beneficiaries' employees and the employees of the beneficiaries' contractors and suppliers.

We analyzed these effects using the IMPLAN input-output modeling system, an economic modeling tool commonly used in economic impact studies. We used a version of IMPLAN that is specifically geared to the economy of the U.S. Virgin Islands, updated through 2015.

The results of the analysis are summarized below.

EDC's Impact in 2013

In 2013, 81 U.S. Virgin Islands' companies were beneficiaries of the Commission's tax incentive programs. Data on employment, payroll, purchasing and capital spending were available for 79 of these companies. Collectively, the 79 companies showed the following:

- Directly employed 4,305 people, and paid more than \$172.7 million in wages and benefits;
- Spent \$153.1 million on purchases of goods and services from other U.S. Virgin Islands' companies; and
- Reported a total of more than \$75.2 million in capital spending with U.S. Virgin Islands' contractors and suppliers.

Taking into account the direct, indirect, and induced impact of this spending, Appleseed estimates that in 2013, these 79 EDC beneficiaries (as shown below in Table 1) directly and indirectly accounted for the following:

- 7,417 jobs in the U.S. Virgin Islands;
- Nearly \$367.2 million in earnings; and
- Nearly \$532.5 million in economic output.

Table 1: Direct, indirect and induced impacts of EDC beneficiaries' operations in the U.S. Virgin Islands, 2013 (wages and output in \$000s of 2013 dollars)

| | Jobs | Wages | Output |
|---|--------------|--------------------|--------------------|
| Direct spending impact | | | |
| Payroll | 4,305 | \$172,714.6 | \$172,714.6 |
| Purchasing/capital expenditures | 1,891 | \$132,163.3 | \$213,209.6 |
| <i>Subtotal, direct impact</i> | <i>6,196</i> | <i>\$304,877.9</i> | <i>\$385,924.2</i> |
| Indirect and induced effects | | | |
| Employee spending | 597 | \$29,361.8 | \$71,313.8 |
| Supplier spending | 624 | \$32,953.6 | \$75,246.8 |
| <i>Subtotal, indirect/induced effects</i> | <i>1,221</i> | <i>\$62,315.4</i> | <i>\$146,560.6</i> |
| Total | 7,417 | \$367,193.2 | \$532,484.7 |

2013: 81 total companies of which 79 companies reported information due to 2 companies' information pending submission at time of analysis.

EDC's Impact in 2014

In 2014, 78 U.S. Virgin Islands' companies were beneficiaries of the Commission's tax incentive programs. Data on employment, payroll, purchasing and capital spending were available for 69 of these companies. Collectively, the 69 companies presented the following:

- Directly employed 3,453 people, and paid more than \$160.1 million in wages and benefits;
- Spent \$150.7 million on purchases of goods and services from other U.S. Virgin Islands' companies; and
- Reported a total of \$75.6 million in capital spending with U.S. Virgin Islands' contractors and suppliers.

Taking into account the direct, indirect, and induced impact of this spending, Appleseed estimates that in 2014, these 69 EDC beneficiaries (as shown below in Table 2) directly and indirectly accounted for the following:

- 6,464 jobs in the U.S. Virgin Islands;
- Nearly \$352.8 million in earnings; and
- Nearly \$517.4 million in economic output.

Table 2: Direct, indirect and induced impacts of EDC beneficiaries' operations in the U.S. Virgin Islands, 2014 (wages and output in \$000s of 2014 dollars)

| | Jobs | Wages | Output |
|---|--------------|--------------------|--------------------|
| Direct spending impact | | | |
| Payroll | 3,453 | \$160,139.1 | \$160,139.1 |
| Purchasing/capital expenditures | 1,860 | \$132,590.4 | \$215,994.4 |
| <i>Subtotal, direct impact</i> | <i>5,313</i> | <i>\$292,729.5</i> | <i>\$376,133.6</i> |
| Indirect and induced effects | | | |
| Employee spending | 543 | \$27,190.2 | \$66,130.8 |
| Supplier spending | 608 | \$32,876.0 | \$75,114.3 |
| <i>Subtotal, indirect/induced effects</i> | <i>1,151</i> | <i>\$60,066.2</i> | <i>\$141,245.1</i> |
| Total | 6,464 | \$352,795.7 | \$517,378.6 |

2014: 11 companies reported in 2013 were removed in 2014, and 8 were added in 2014 which resulted in a total of 78 companies in 2014. Of the 78, 69 companies reported information due to 9 companies' information pending submission. Of the 9, 3 designated service companies were awaiting orientation

EDC's Impact in 2015

In 2015, 77 U.S. Virgin Islands' companies were beneficiaries of the Commission's tax incentive programs. Data on employment, payroll, purchasing and capital spending were available for 64 of these companies. Collectively, the 64 companies did the following:

- Directly employed 2,939 people, and paid more than \$136.0 million in wages and benefits;
- Spent nearly \$96.9 million on purchases of goods and services from other U.S. Virgin Islands' companies; and
- Reported a total of \$84.1 million in capital spending with U.S. Virgin Islands' contractors and suppliers.

Taking into account the direct, indirect, and induced impact of this spending, Appleseed estimates that in 2015, these 64 EDC beneficiaries (as shown below in Table 3) directly and indirectly accounted for the following:

- 5,427 jobs in the U.S. Virgin Islands;
- \$297.0 million in earnings; and
- \$431.1 million in economic output.

Table 3: Direct, indirect and induced impacts of EDC beneficiaries' operations in the U.S. Virgin Islands, 2015 (wages and output in \$000s of 2015 dollars)

| | Jobs | Wages | Output |
|---|--------------|--------------------|--------------------|
| Direct spending impact | | | |
| Payroll | 2,939 | \$136,011.1 | \$136,011.1 |
| Purchasing/capital expenditures | 1,534 | \$110,895.1 | \$177,534.5 |
| <i>Subtotal, direct impact</i> | <i>4,473</i> | <i>\$246,906.2</i> | <i>\$313,545.6</i> |
| Indirect and induced effects | | | |
| Employee spending | 459 | \$23,233.7 | \$56,183.8 |
| Supplier spending | 495 | \$26,882.1 | \$61,374.5 |
| <i>Subtotal, indirect/induced effects</i> | <i>954</i> | <i>\$50,115.9</i> | <i>\$117,558.3</i> |
| Total | 5,427 | \$297,022.0 | \$431,103.9 |

2015: 12 companies reported in 2014 were removed in 2015, and 11 were added in 2015 which resulted in a total of 77 companies in 2015. Of the 77, 64 companies reported information due to 13 companies' information pending submission. Of the 13, 1 designated service company was on extension and 3 were awaiting orientation were awaiting orientation.

An Understated Impact

Because the preceding analysis is based only on the impact of companies for which employment and spending data were available, the results shown in Tables 1, 2, and 3 probably understate, to some extent, the collective economic impact of EDC's beneficiaries. This is especially the case for 2014 (when information was not available for 9 of the Commission's 78 beneficiaries) and 2015 (when no information was available for 13 of the Commission's 77 beneficiaries). If data for all participating companies were available, the totals for jobs, earnings, and output shown in Tables 1, 2, and 3 would all be higher.

Similarly, the data and analyses presented above do not capture the impact of some types of ancillary spending for which EDC beneficiaries are at least partly responsible. For a resort hotel, for example, our analysis takes into account the impact of spending by the hotel itself on payroll, purchasing and capital improvements, but not the impact of any spending by hotel guests that might occur off-premises, such as spending in local shops and restaurants, on local transportation or on entertainment. For this reason, as well, the impacts presented in Tables 1, 2, and 3 may be understated.

Conclusion

The USVI EDA EDC Program has clearly made an impact on the economic well-being of the Territory. The program provided avenues for new monies and investments to enter and impact the Territory in ways that may not have been possible without the provisions contained in the laws. Although the programs provide benefits to the investors, real income produced-- two-thirds-- outweighs income forgone-one-third-and constitutes new and additional income that was not available prior to incentives being granted to applicants. If EDC companies were unable to access the incentives and were required to forego concessions, the benefits to the Territory would be significantly lower as the overwhelming majority of beneficiaries indicated that investments in the Territory would not have been made, or they would be forced to relocate to other jurisdictions that would be more financially attractive and appealing. Carefully balancing the program by granting incentives, monitoring compliance, and assuring advancement of residents through capacity and capability building may help the Territory to retain and expand businesses, attract new businesses, sustain the economy, and improve the quality of living for residents and visitors alike. Other EDA programs including the Economic Development Bank (EDB), Enterprise Zone Commission (EZC), and the Economic Development Park Commission (EDPC) are clearly in support of this goal.



Fort Christiansvaern, St. Croix, USVI

Introduction

The USVIEDA was established in 2001 for the primary purpose of creating an environment for business retention, expansion, and growth for the economic sustainability of the Territory of the Virgin Islands of the United States.³ It was created as a semi-autonomous government agency to assume, integrate, and unify the functions of the agency under one executive board in order to achieve maximum efficiency, streamline operations, and develop comprehensive programs to promote and enhance the economic development of the U.S. Virgin Islands. USVIEDA oversees the following subsidiary entities:

- Virgin Islands Economic Development Commission (EDC)
- Virgin Islands Economic Development Park Corporation (EDPC)
- Enterprise Zone Commission (EZC)
- Economic Development Bank (EDB)

As the Territory continues to face sustained financial and economic stress, the various divisions of USVIEDA are seen as performing a major role in helping to stem the tide and place the Territory on a sustained trajectory of economic growth and development. For almost fifty years, USVIEDA has been providing opportunities for economic development for the people and residents of the Territory by providing loans for fishing, agriculture, and other small business enterprises; retaining and attracting businesses to the Territory through an array of tax incentives; revitalizing brownfields and other economically depressed areas through enterprise zone tax credits and other incentives, and providing operating and manufacturing spaces from which many organizations could operate.

This report, prepared by the University of the Virgin Islands Institute for Leadership and Organizational Effectiveness (ILOE), with technical assistance from Appleseed, assesses the impact of the EDC Program on the Territory for the period 2013, 2014, and 2015. It highlights the

³ See Act No. 6390, Feb. 1, 2001, § 17, V.I. Sess. Laws (2000), p. 130. The USVIEDA's predecessor agency, the Industrial Development Commission ("IDC"), was created in 1971 as the primary investment development agency of the Government of the Virgin Islands under Title 29 of the Virgin Islands Code. The purpose of the IDC was to encourage and assist the creation, development and expansion of businesses in the U.S. Virgin Islands.

employee benefits, total purchases of goods and services, total capital expenditures, total taxes and duties paid, total tax benefits, benefits to the Territory, and total contributions, local and non-local, to the United States Virgin Islands in strengthening the Territory's economy and improving the quality of life for many residents.

Organization of the Report

Part One of this report provides an overview of the EDC, the Territory's economic and social conditions, and the broader regional context. **Part Two** speaks of EDC as an enterprise and highlights the revenues, employment capacity, impact of purchasing and construction, indirect and induced effects, and direct, indirect, and induced effects of spending by EDC beneficiaries.

Part Three addresses the role of EDC in the development of human capital with regard to employment by EDC beneficiaries, where EDC employers and employees live, helping residents prepare for careers in key industries, the impact of EDC employment on workers' earnings, and contributions to education. **Part Four** analyzes the impact of EDC companies by category: Manufacturing and product assembly; hotel, recreation facilities, marina and transportation; designated services, and, utilities and others. **Part Five** of the report highlights entrepreneurship and economic development. It includes developing a new generation of entrepreneurs, supporting small business development through local purchases, and the need for collaboration in economic development.

Part Six describes outreach and community engagement through charitable contributions, education, youth development, business resources for the community, other community initiatives, and building a stronger economy. **Part Seven** speaks to contributions to the development of the region through human capital, services that benefit the region, and business and community collaboration. **Part Eight** promotes the EDC and the future of the U.S. Virgin Islands' economy. It identifies the growing impact of new business development and relocation, a stronger emphasis on entrepreneurship and innovation, a catalyst for economic development, and a stronger Virgin Islands' community well into the future.

Acknowledgements

This report could not have been developed without the active engagement and support of many persons at the USVIEDA/EDC. We are especially thankful to Wayne L. Biggs, Jr., Acting Chief Executive Officer; Tracy Lynch Bhola, Esq., General Counsel; Margarita Benjamin, Director of Applications, and Claude S. M. Gerard, Director of Compliance, Nadine Marchena Kean, Director of the Enterprise Zone Commission. Special thanks to the entire USVIEDA staff who work tirelessly every day to carry out the mandate of the Commission to ensure effective and productive administration of the Economic Development Program ("Program"). We also thank the beneficiaries who put forward their best efforts to maintain compliance with the Program. Thanks also to the Governing Board of the Authority who provide guidance and support to the organization on a sustained basis.



Christiansted Harbor, St. Croix, USVI

Part One: Virgin Islands Economic Development Commission: Overview and Context

During the year 2017, the Virgin Islands celebrated its one hundredth anniversary under the flag of the United States of America. The history of the U.S. Virgin Islands is as rich as its people. Over the centuries prior, the islands were ruled by the English, Dutch, French, Spanish, Knights of Malta, and Danes. During World War One, the United States bought the islands from Denmark for \$25 million in gold.

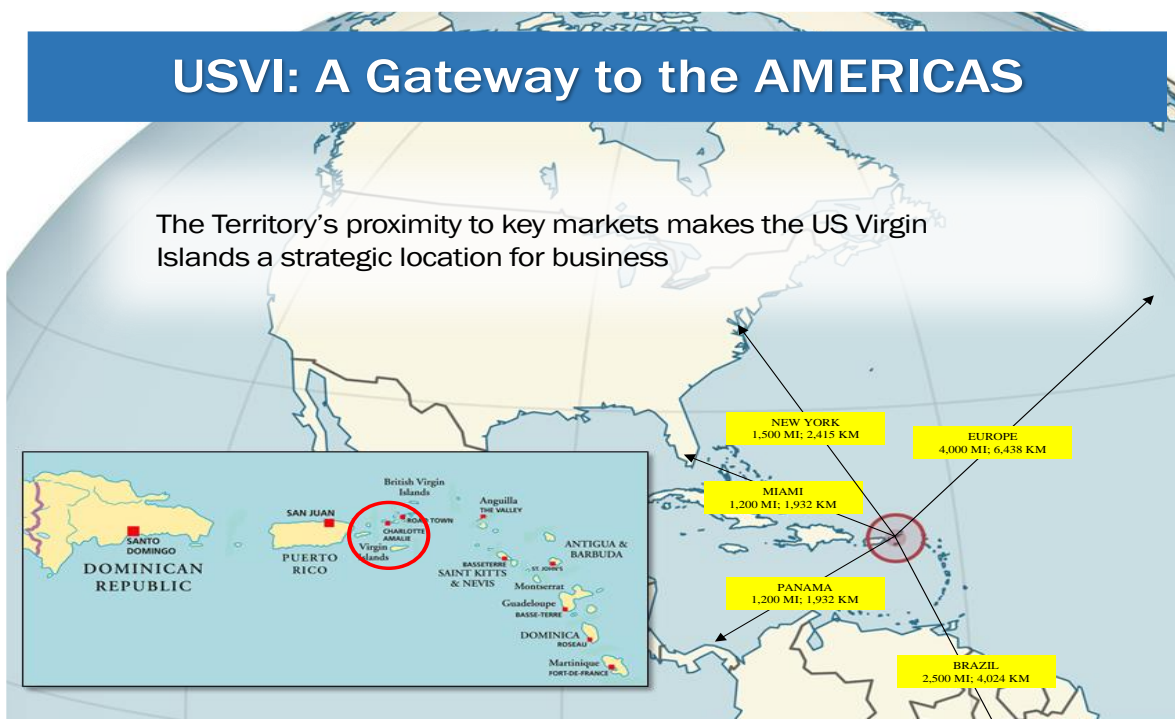


Figure I-1: USVI: A Gateway to the Americas

The unique culture and history of the USVI reflect the West African, Danish, French, Spanish, Irish, Polish, and German heritage of those who have made the U.S. Virgin Islands their home since the late 1400s. The rhythms and lyrics of Virgin Islands' music including calypso, cariso, soca, reggae, and steel pan melodies are colorful reminders of our past. Virgin Islanders also express themselves through dance, painting, drawing, sculpture, and photography.

USVI Financial Sustainability

In 2017, the Government of the United States Virgin Islands (GVI) Office of Management and Budget (OMB) commissioned the University of the Virgin Islands Institute of Leadership and Organizational Effectiveness (ILOE) to undertake an independent analysis of the financial situation of the Territory and to develop a socio-econometric model for budget forecasting specific to the main tax categories of the Territory. ILOE undertook the assignment in collaboration with the University of Nebraska at Omaha, College of Public Affairs and Community Service.

The intention of the study was to provide a strategic high-level yet usable review that draws on the detailed analysis of multi-year USVI financial data in order to get a better sense of the Territory's financial sustainability and offer a practical approach to more accurately determine the factors impacting revenue forecasting, revenue generation, and revenue collection to improve the long-term sustainability of Government revenues across the Territory.

Results as shown in Figures 2-11 indicate that the cash solvency of the USVI is somewhat below the national average and trending downward while the nation is trending upward. These recent downward trends for the USVI are problematic. The budget solvency has varied, but the recent trend in the operating ratio is favorable, as is the trend in the own-source ratio. Service level solvency is a concern, as liabilities are growing relative to assets, and per capita debt outstanding is also growing. Long-run solvency ranks low among the states and most of the trends are unfavorable. The USVI's finances were more favorable than those of Puerto Rico in all but one case.

Figure I-2: Cash Ratio, USVI and Nation, 2012 - 2016

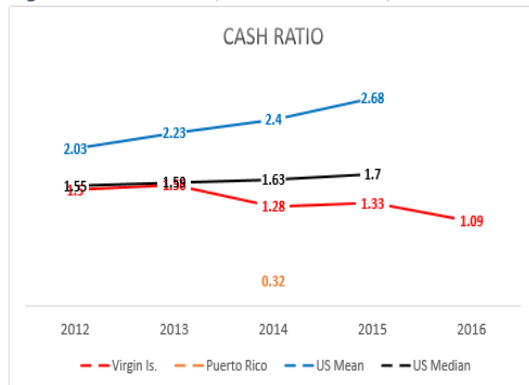


Figure I-3: Quick Ratio, USVI and Nation, 2012 - 2016

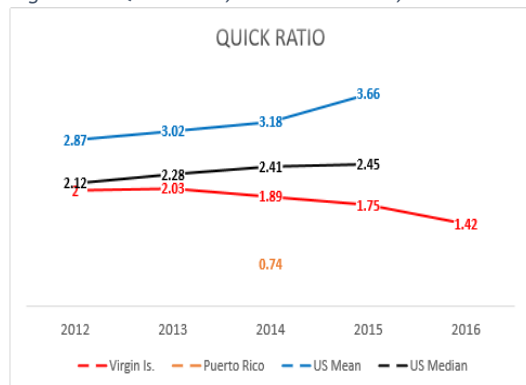


Figure I-4: Operating Ratio, USVI and Nation, 2012-2016

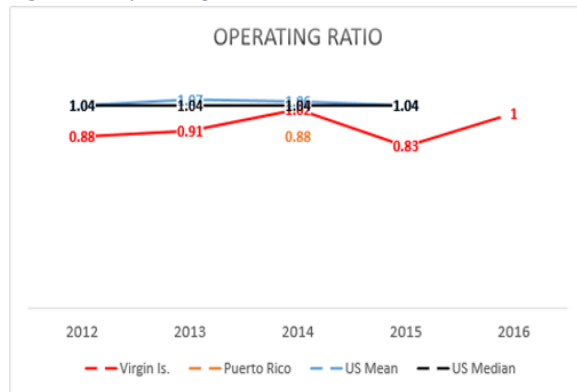


Figure I-5: Own-Source Ratio, USVI and Nation, 2012-2016

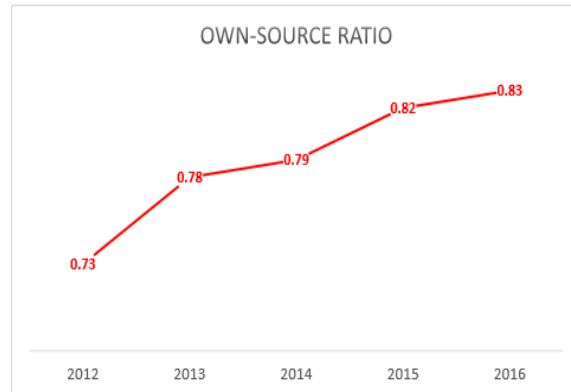


Figure I-6: Net Assets per Capita (in USD), USVI, 2012-2016

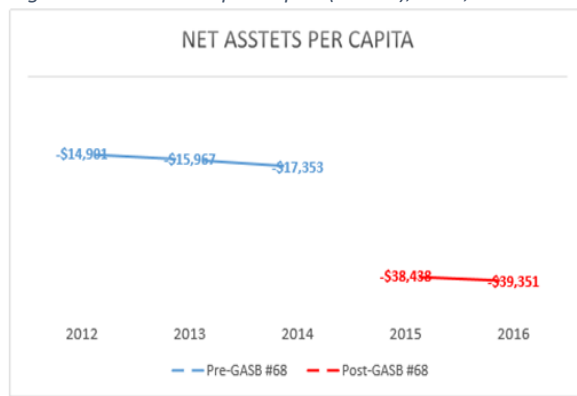


Figure I-7: Long-term Debt Outstanding per Capita, USVI 2012-2016

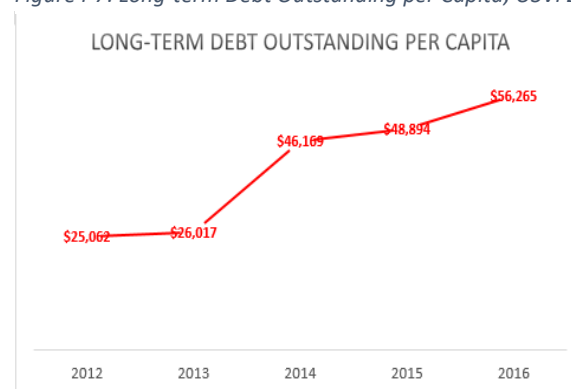


Figure I-8: Net Asset Ratio, USVI and Nation, 2012-2016

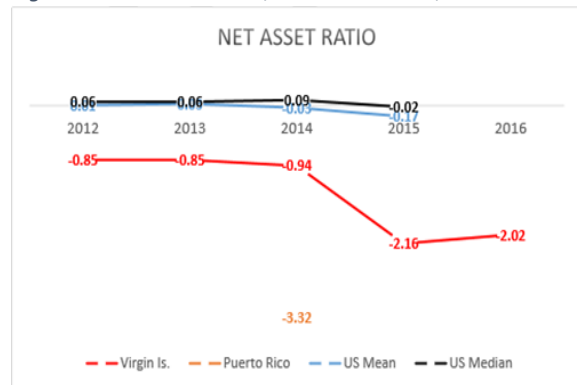


Figure I-9: Long-term Debt Ratio, USVI, 2012-2016

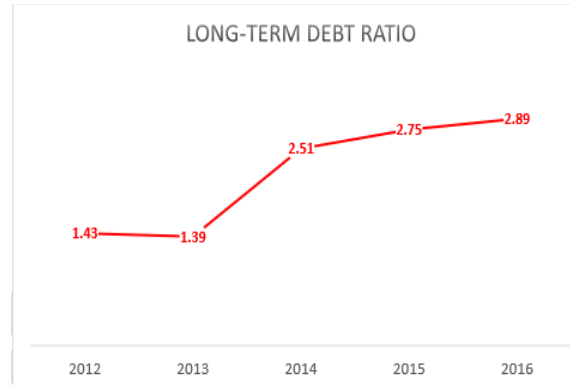


Figure I-10: Long-term Liability per Capita, USVI and Nation,

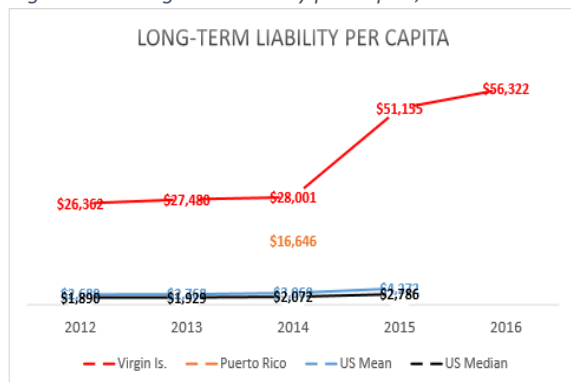
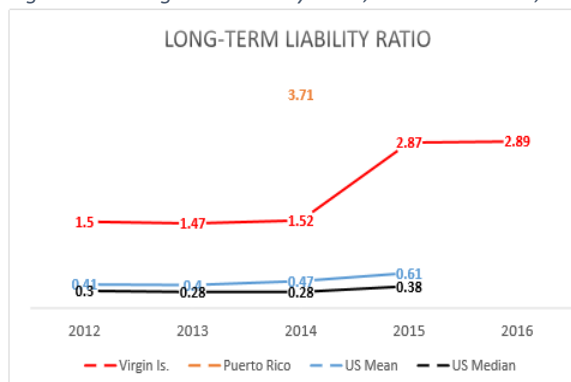
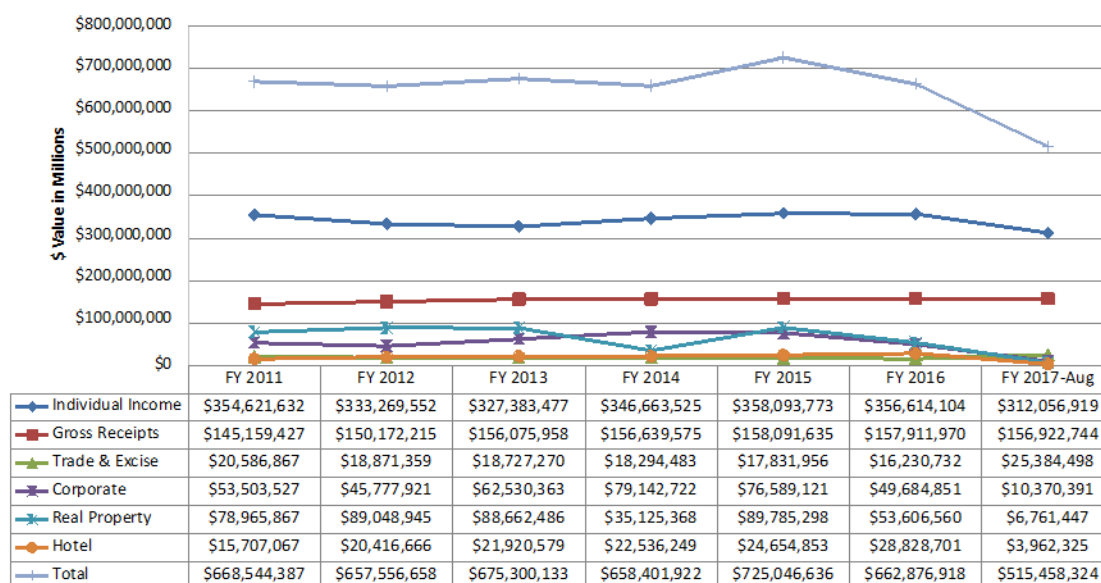


Figure I-11: Long-term Liability Ratio, USVI and Nation,



The current economic and social conditions of the Territory are challenging. As the Authority continues to carry out its mandates, it is faced with renewed challenges in an environment where the financial situation of the Territory is stressed and precarious when compared to the mainland United States and prospects of a renewed future seems the more daunting, but achievable.

U.S.V.I. NOMINAL GOVERNMENT REVENUE COLLECTIONS FY 2011-2017 Aug. YTD



Source: Department of Finance
Data Compiled by: Bureau of Economic Research

Figure I-12: USVI Financial Sustainability Report, 2018

Additionally, challenges in the areas of health, education, and other social issues present real and present threats to the stability of the Territory. As noted in the foregoing graph, crime is relatively high per capita when compared to other jurisdictions, and the steady decline in population poses a challenge to the economy. However, the EDC program has been a sure and steady source of economic strength as noted in this study regarding the benefits attributed to the Territory in taxes, purchases made, and charitable contributions.

Countries with the highest murder rate
Intentional homicide rate per year per 100,000 inhabitants

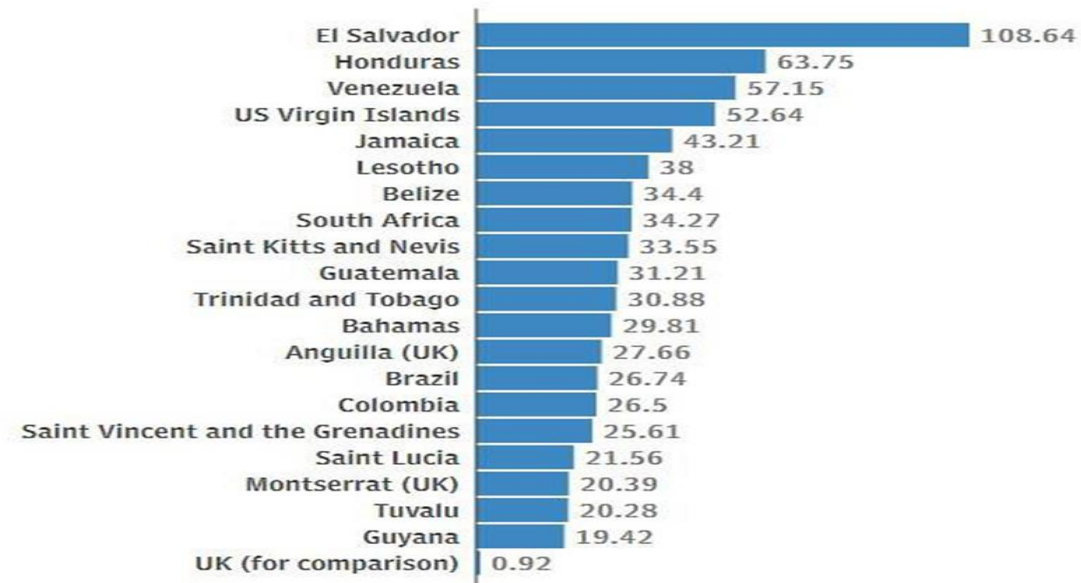


Figure I-13: Countries with the Highest Murder Rate - WorldAtlas.com/2018



Quality of Life

- A culture today that reflects the islands' history & heritage
- World class residential properties
- Quality primary & secondary schools
- Access to quality healthcare
- Robust sporting life -boating, fishing, golf, tennis, diving, etc.
- Natural beauty & year round topical climate
- Unique island life - food, art, music, dance etc.











Figure I-14: Quality of Life in the Virgin Islands

The number of organizations receiving benefits from the Territory through the EDC program has varied from 79 in 2013 to 69 in 2014 and to 64 in 2015. Although there has been a decline in the number of active clients over the period, applications continue to come at a steady yet slower pace as competition from Puerto Rico has increased in the recent past as a result of efforts from the Commonwealth to buttress its own staggering economic challenges. EDC officials not only market the benefits of the program nationally and internationally but also provide regular programming to help the residents of the Territory improve their understanding of the program. The EDC program is strategically supported by other USVIEDA programs that together contribute to almost one-third of the taxes paid into the Government's general fund over the period of 2013 to 2015.

The Authority's other programs and activities include the Small Business Incubator, Tax Increment Financing, VI-Ambassadors, Hotel Development, Marine Development Initiative, Eligible Suppliers Program, and the Sustainable Tourism through Arts-based Revenue Stream (S.T.A.R.S.) program. These programs together with the services offered through the Economic Development Bank, Enterprise Zone Commission, and Economic Development Park Corporation all serve to underpin the economic girders of the Territory.


|  US vs USVI Tax Comparison Financial Services | | |
|--|---------------------------|--------------------|
| C Corporation | US | USVI |
| | Code | Mirror Code |
| Taxable Income | \$28.2 million | \$28.2 million |
| Corporate Tax Rate (maximum) | 35% | 3.85% |
| Corporate Tax Liability | \$9.9 million | \$1.1 million |
| Pass-Through Entity (US Citizen Owners) | US | USVI |
| | Code | Mirror Code |
| Taxable Income | \$7.6 million | \$7.6 million |
| Individual Tax Rate (maximum) | 39.6% | 3.96% |
| Tax Liability | \$3 million ¹⁹ | \$301,000 |

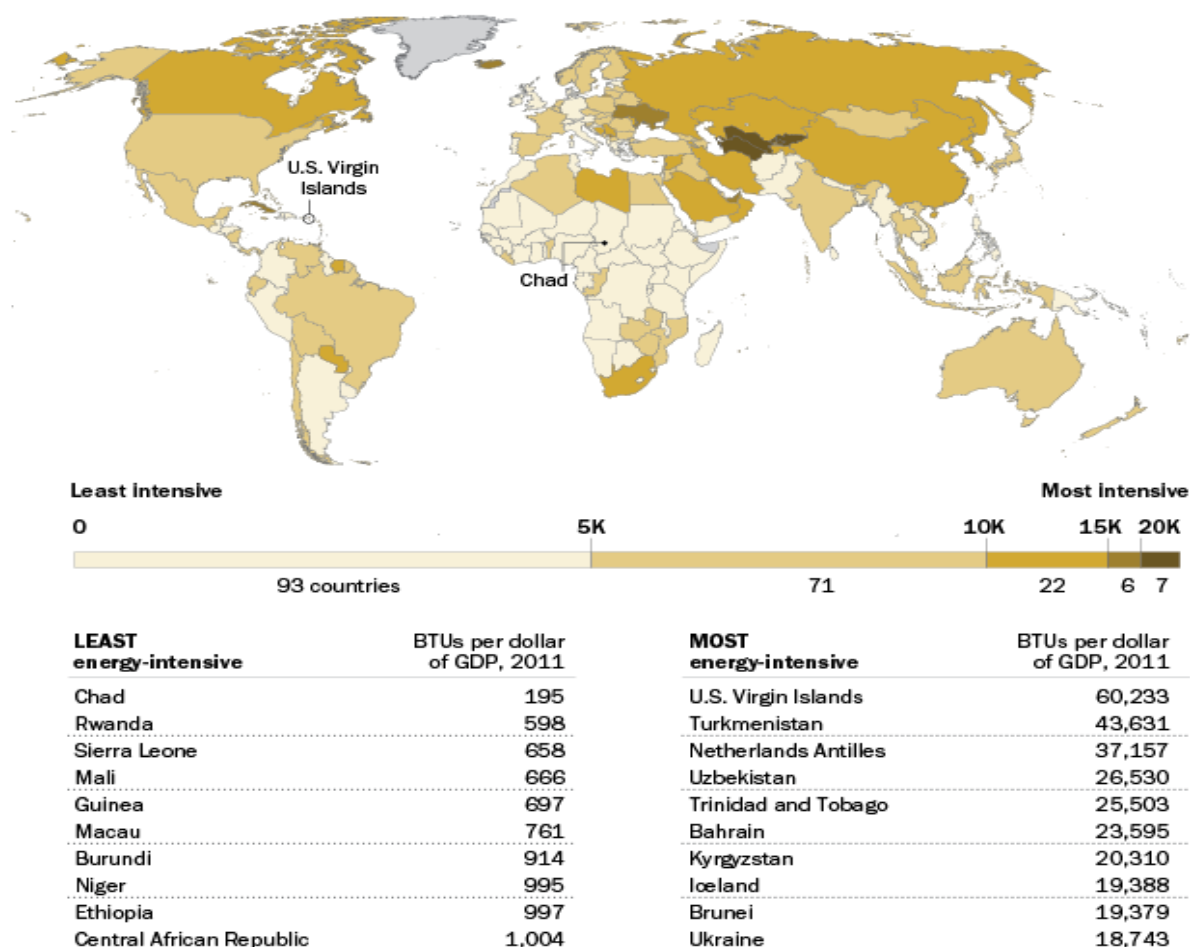
Figure I-15: US vs. USVI Tax Comparison⁴

⁴The tax rates indicated herein are represent the maximum corporate tax rate that was in effect during the period of the report, 2013 - 2015. The Tax Cuts and Jobs Act of 2017 reduced the maximum corporate tax rate to 21% effective during tax year 2018.

Although the Territory boasts a significantly advanced telecommunications system with broadband technology and serves as a strategic inter-connectivity crossroad, the high cost of energy has been a deterring factor for business retention and business attraction when compared to other jurisdictions. As noted by the U.S. Energy Information Administration (“By far the most energy- intensive place on earth was something of a surprise: the U.S. Virgin Islands, which uses more than 60,000 Btu per dollar of GDP, more than eight times the rate of the mainland U.S. Several factors account for the Virgin Islands’ high ranking, according to an [EIA analysis](#)⁵: The islands use large amounts of imported petroleum to power the desalination plants that supply their drinking water; many small, simple-cycle generators are used to provide electricity; and there are “operational constraints and power losses on the islands’ isolated electric grids.”

The Most and Least Energy-Intensive Places on Earth

BTUs per dollar of GDP, 2011



Note: GDP is measured in 2005 dollars on a purchasing-power parity basis. The Netherlands Antilles was dissolved in 2010.

Gray shading indicates no data.

Source: U.S. Energy Information Administration

PEW RESEARCH CENTER

Figure I-16: The Most and Least Energy-Intensive Places on Earth

⁵ U.S. Energy Information Administration, U.S. Virgin Islands, Territory Profile and Energy Estimates - <https://www.eia.gov/state/analysis.php?sid=VQ>

The recent hurricanes in September 2017, Irma and Maria, have made it even more challenging to keep the economy of the Territory on a favorable trajectory. However, efforts are being made by the Government to avert further decline by utilizing federal assistance in the form of community disaster loans, FEMA insurance coverage, and other federal and non-governmental sources.

A review of the demographics, as noted in the foregoing graph, reveals that the population of the Territory is on a steady decline. As shown in the foregoing graphs, the USVI population peaked in 2010 at approximately 110,000 and is expected to fall to approximately 103,000 by 2030, and to approximately 74,000 later in the century. The upcoming 2020 Census should give a more up-to-date account of the trend in population over the last several years.

Virgin Islanders continue to strengthen the economies of the U.S. mainland by opting to relocate to “greener pastures.” Additionally, many retirees have relocated to their homelands and use the retirement benefits to help make those economies more robust and sustainable. To fill the population void, every effort should be made to increase the population through more births, the repatriation of Virgin Islanders living abroad, and the immigration to the Territory of highly skilled workers ready to fill the workforce demands and enhance the quality of life for all persons living in or visiting the Territory.

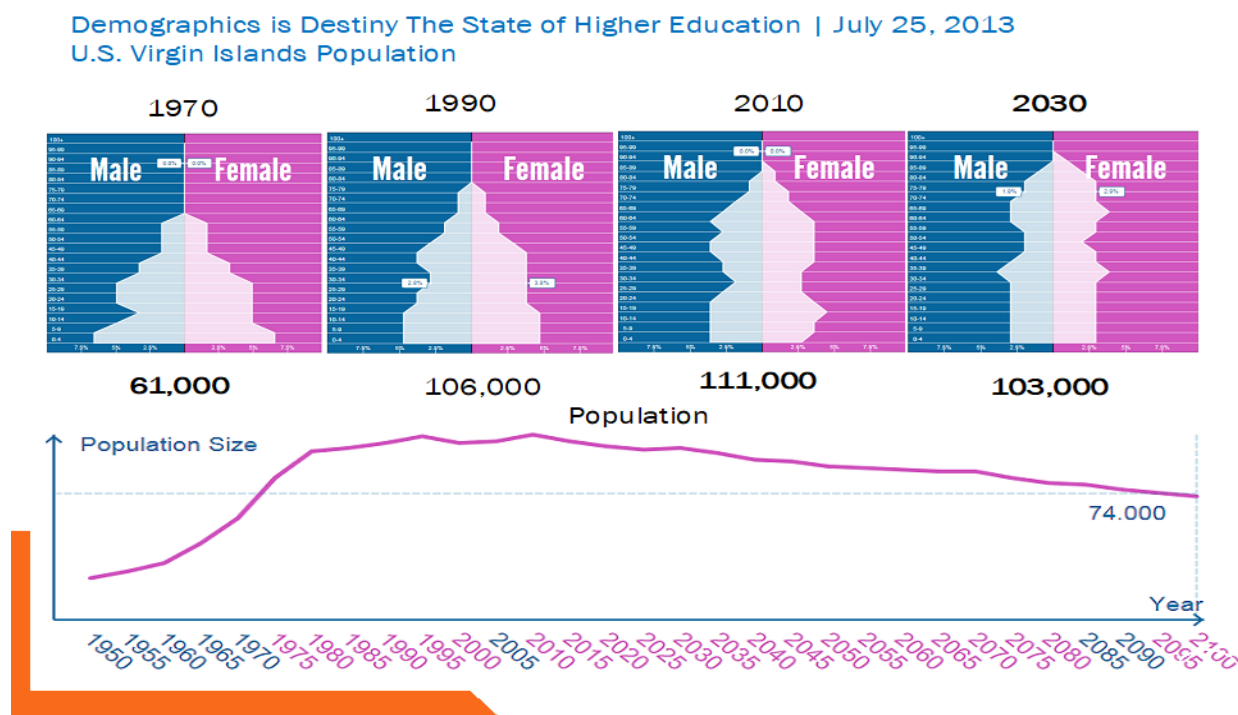


Figure I-17: Demographics is Destiny - The State of Higher Education, Michael Straugh, Commonfund⁶

⁶ Commonfund is an independent asset management firm serving nonprofit investors such as endowments, foundations and public pensions.

On the question of education, it is clear that the more educated a society becomes, the stronger will be its economy. In “A Skilled Workforce for Strong, Sustainable and Balanced Growth” – A G20 Training Strategy” reference is made to the fact that global drivers of change such as opportunities and challenges for training and skills development have a direct impact on education and the workforce. There is need for a strategic framework to bridge training and the world of work, establishment of building blocks of strong training and skills development strategies, and sharing knowledge and experience, all indicators of strong economies. Research indicates that education is inextricably connected to economic and financial sustainability. The Lumina Foundation Attainment Rates in the Developed World indicates that in the United States of America, education levels by degree obtained are significantly below those of many other nations. As noted in the following graphs within the United States itself in 2013, only 45.8% of the population age 25 and over held some form of postsecondary education. The goal for 2025 is 60% of the identified population category holding postsecondary qualifications. In the USVI the numbers are significantly lower. Approximately 25% of the USVI population ages 25-64 hold a postsecondary qualification.

Therefore, it is important that whatever the approach taken by the USVI to ensure financial sustainability, higher education must rank very high on its agenda. Whether this means educating more Virgin Islanders at a faster rate, repatriating Virgin Islanders from across the globe, or attracting more highly educated individuals to work in economically competitive businesses that relocate to the Virgin Islands, a conscious effort must be made to address this reality.

Levels of education for United States residents, ages 25-64

| Educational Attainment | Number | Percent |
|-------------------------------------|--------------------|---------------|
| Persons 25 years to 64 years | 165,591,021 | 100.00 |
| Less than 9th grade | 7,742,535 | 4.68 |
| 9th or 12th grade | 12,106,780 | 7.31 |
| High school graduate (or GED) | 44,058,025 | 26.61 |
| Some college, no degree | 36,439,822 | 22.01 |
| Associates degree | 14,518,398 | 8.77 |
| Bachelor degree | 32,410,007 | 19.57 |
| Post-Bachelor degree | 18,315,454 | 11.06 |

Source: 2012 American Community Survey, U.S. Census Bureau

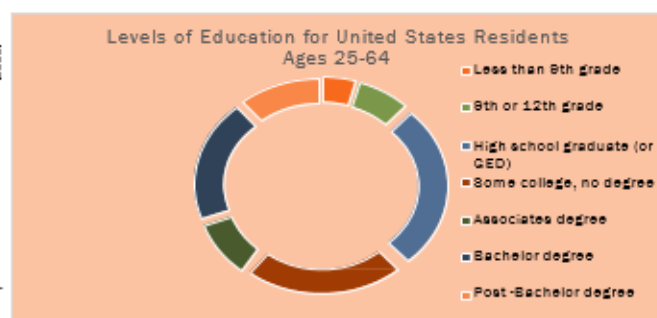


Figure I-18: Levels of Education for United States Residents, Ages 25-64

Levels of Education for United States Virgin Islands Residents, ages 25-64

| Educational Attainment | Number | Percent |
|-------------------------------------|---------------|---------------|
| Persons 25 years to 64 years | 60,759 | 100.00 |
| Less than 9th grade | 4,755 | 7.83 |
| 9th or 12th grade | 9,973 | 16.41 |
| High school graduate (or GED) | 22,523 | 37.07 |
| Some college, no degree | 8,564 | 14.10 |
| Associates degree | 3,615 | 5.95 |
| Bachelor degree | 8,506 | 14.00 |
| Post-Bachelor degree | 2,822 | 4.64 |

Source: 2013 Virgin Islands Community Survey, Eastern Caribbean Center, University of the Virgin Islands

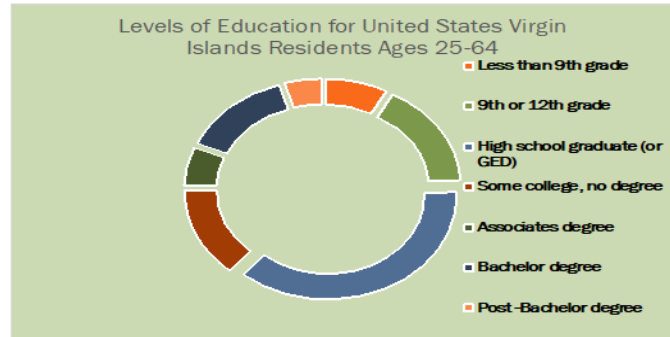


Figure I-19: Levels of Education for United States Virgin Islands Residents, Ages 25-64

The University of the Virgin Islands continues to provide a variety of opportunities for individuals to obtain an advanced level of education. The Board of Trustees recently approved online degrees including but not limited to the following:

- Bachelor of Science in Engineering Management Technology
- Bachelor of Science in Applied Computing
- Bachelor of Science in Cybersecurity
- Bachelor of Science in Computer Engineering Technology
- Bachelor of Science in Engineering Management Technology
- Associate of Science in Computer and Electronic Engineering Technology
- Associate of Science in Applied Computing
- Associate of Arts in Engineering Management Technology
- Bachelor of Arts in Management
- Master of Business Administration Degree
- Bachelor of Arts in Accounting
- Bachelor of Arts in Financial Planning
- Master of Arts in Leadership

Degree Attainment for the US Virgin Islands: 2008-2013

| Educational Attainment | 2008 | 2009 | 2010 | 2012 | 2013 |
|---|--------|--------|--------|--------|--------|
| Persons 25 years and over | 80,079 | 73,799 | 70,813 | 73,751 | 76,377 |
| Percent with at least an Associates Degree | 20.32 | 22.29 | 23.57 | 22.83 | 22.30 |

Source: *Virgin Islands Community Survey*, Eastern Caribbean Center, University of the Virgin Islands

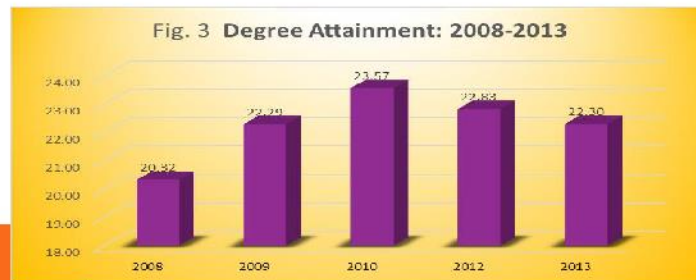


Figure I-20: Degree Attainment for the United States Virgin Islands, 2008-2013

Degree Attainment Rates by Race for the US Virgin Islands: 2013

| Degree Attainment | Virgin Islands | | | |
|---|----------------|---------------|--------------|--------------|
| | Total | Black | White | Other races |
| Persons 25 years and over | 76,377 | 57,902 | 9,220 | 9,256 |
| Percent with at least an Associates Degree | 22.30 | 18.52 | 46.76 | 21.60 |

Source: *2013 Virgin Islands Community Survey*, Eastern Caribbean Center, University of the Virgin Islands

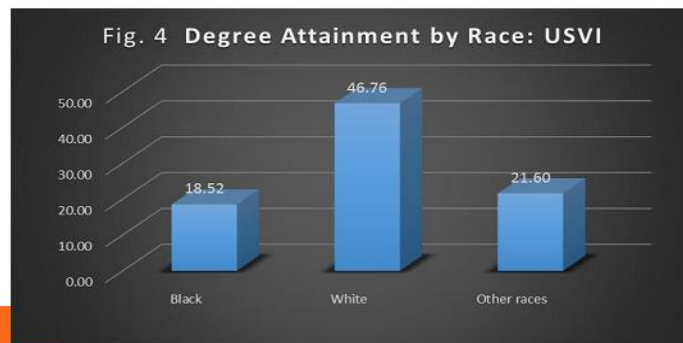


Figure I-21: Degree Attainment Rates by Race for the United States Virgin Islands, 2013

Students graduate on a steady annual rate, but more needs to be done to improve the two-year, four-year, and six-year graduation rates in light of the number of years for which the University has been in existence. Greater efforts must be made to improve the quality of P-16 education and

beyond to further ensure an educated workforce capable of taking the Territory into the years ahead. Statistics noted in the following graphs indicate that an overwhelming 74% of the jobs in the future would require at least some form of post-secondary education in the form of vocational certificate or higher.

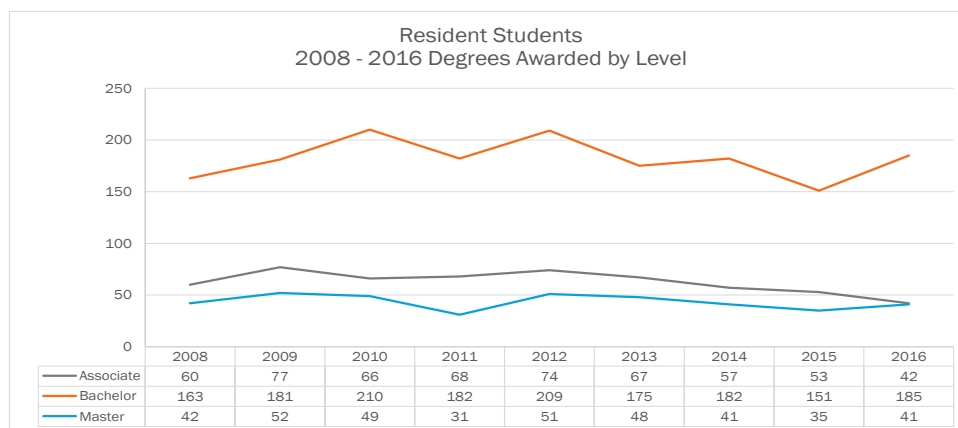


Figure I-22: Degree Attainment for Resident Students, 2008-2016

As noted in the foregoing graphs, the USVI unemployment rate has taken quite a severe jolt during the period of 2011 to 2016. In 2013/2014 the already strained economy was further affected by the closure of the HOVENSA facilities on St. Croix. Other factors including the challenge from Puerto Rico to the EDC program, the sustained reduction in population, and more recently the hurricanes all contributed to fluctuations in the unemployment rate and the further fragility of the economy. The unemployment situation on St. Croix has been especially challenging but has rebounded from a high of 15.8% in 2013 to 11.2% in 2016 due in large part to the establishment of the Diageo Distillery and the recommissioning of the former HOVENSA oil storage facilities.

During that same period the gross domestic product has decreased and the number of persons filing unemployment claims decreased steadily. There has also been a decrease in taxes with the exception of gross receipts. Decreases in visitor arrivals and the number of building permits issued have further added to the economic woes of the Territory. Although the number of homes and condos sold increased, there was a decrease in the value of sales of homes and condos.

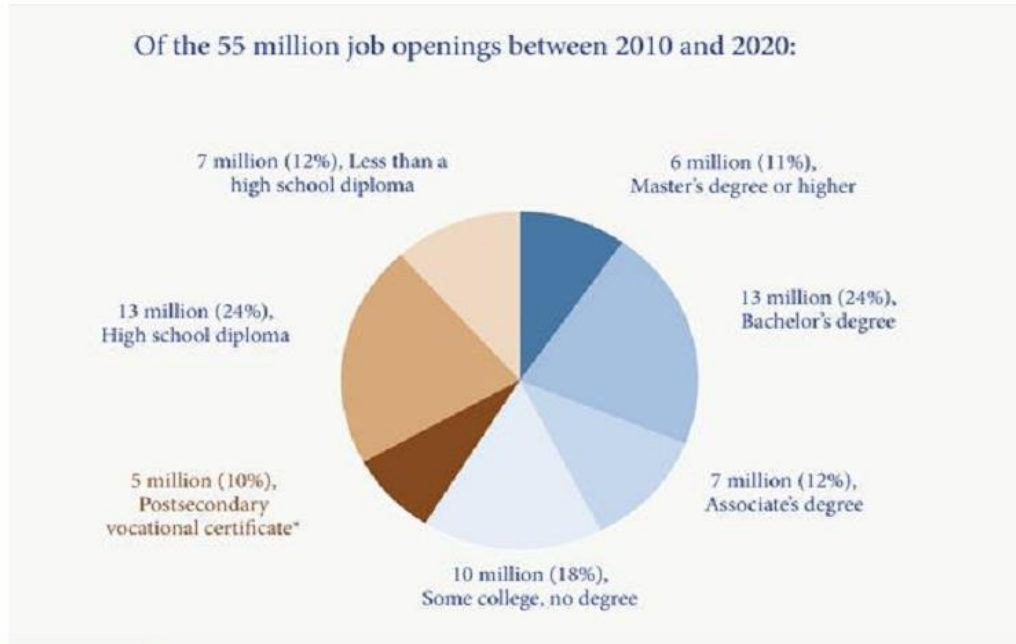
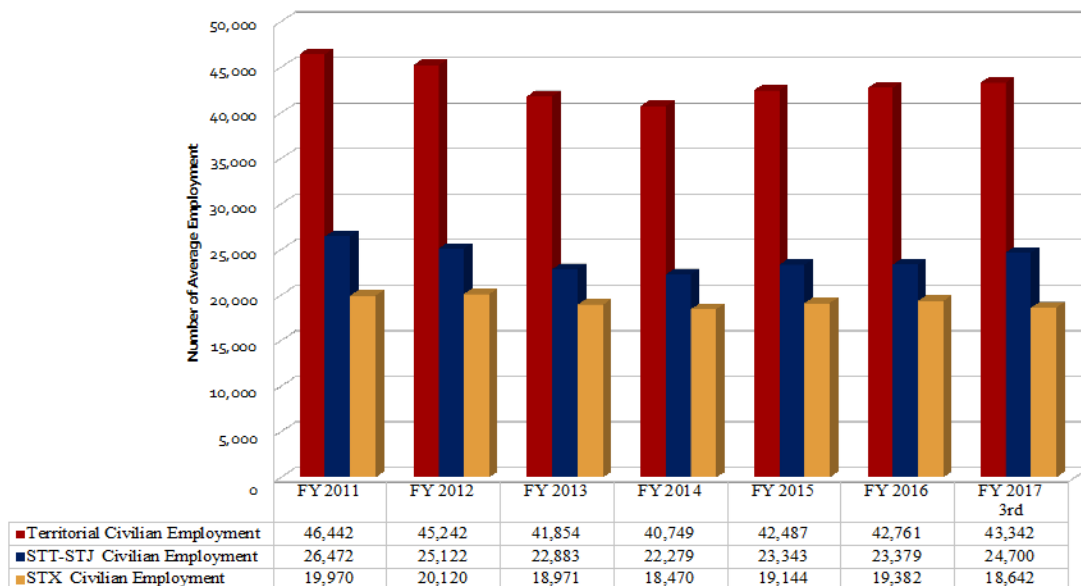


Figure I-23: Hechinger Report - Job Opening 10 Year Projection

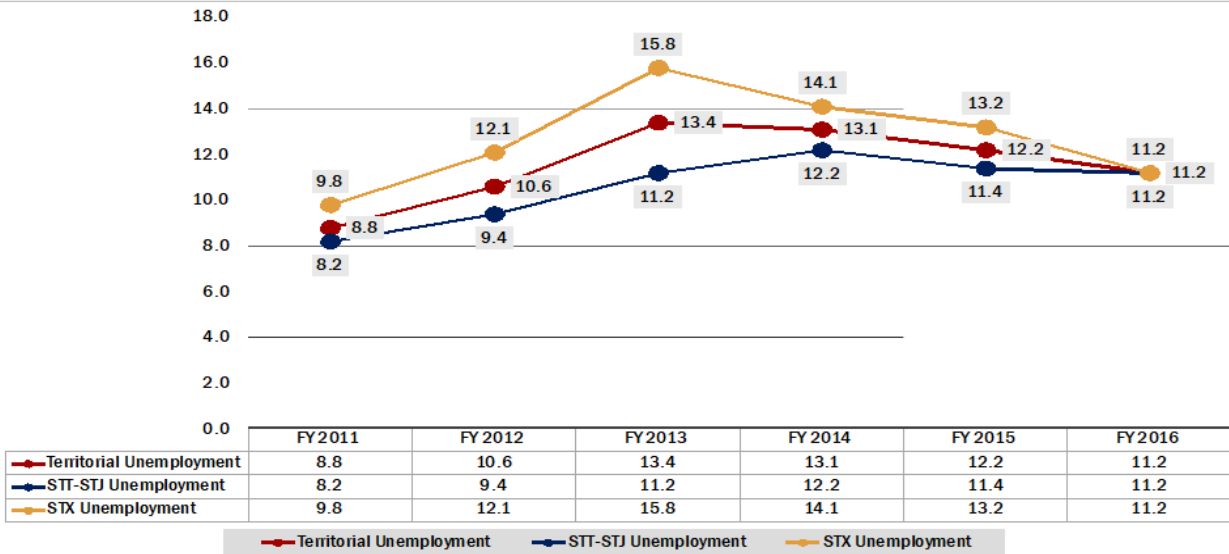
U.S.V.I. CIVILIAN EMPLOYMENT FY 2011 – 2017 3rd Quarter YEAR-TO-DATE



Source: Bureau of Labor Statistics, Department of Labor
Data Compiled by: Bureau of Economic Research

Figure I-24: USVI Civilian Employment, FY 2011-2017 (3rd Quarter)

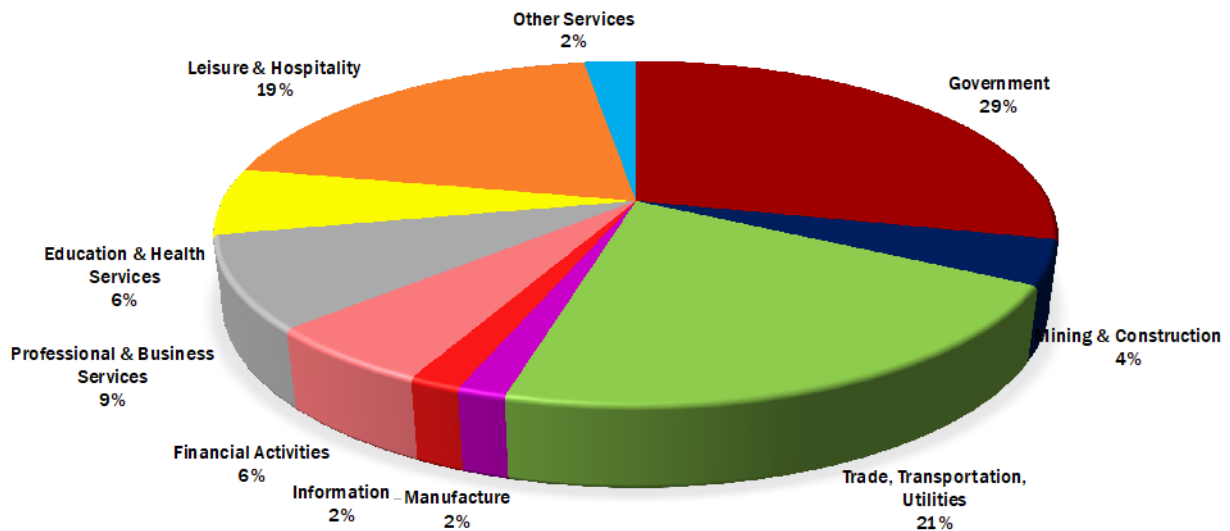
U.S.V.I. UNEMPLOYMENT RATE FY 2011- 2016



Source: Bureau of Labor Statistics, Department of Labor
Data Compiled by: Bureau of Economic Research

Figure I-25: USVI Unemployment Rate FY 2011-2016

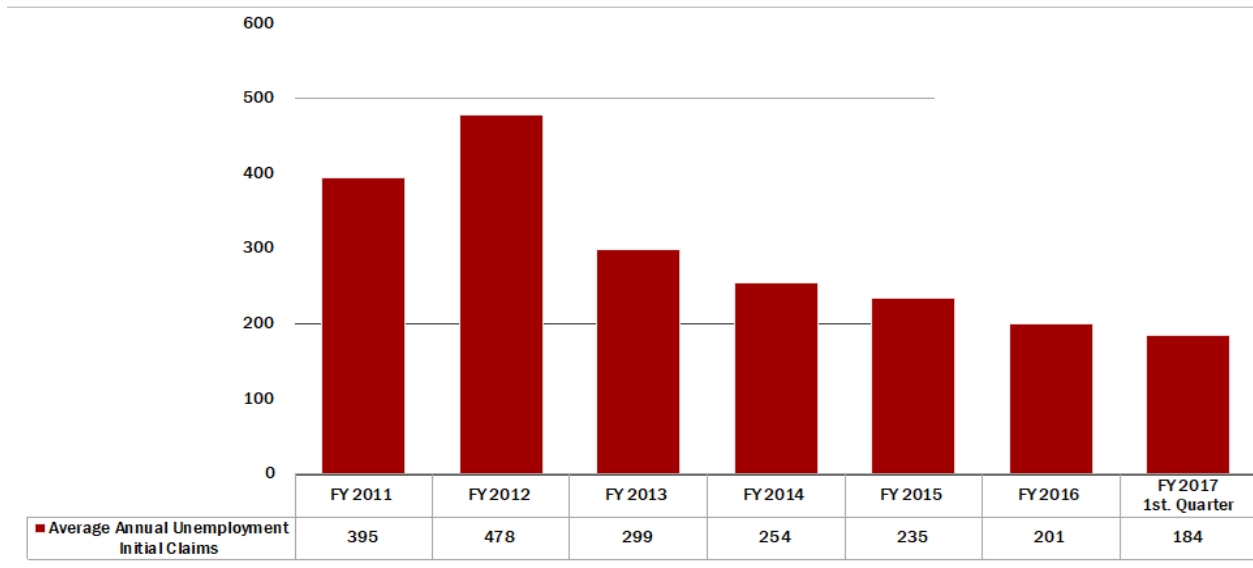
PERCENT NON-AGRICULTURAL JOBS, FY 2016



Source: Bureau of Labor Statistics, Department of Labor
Data Compiled by: Bureau of Economic Research

Figure I-26: Percent Non-Agricultural Jobs, FY 2016

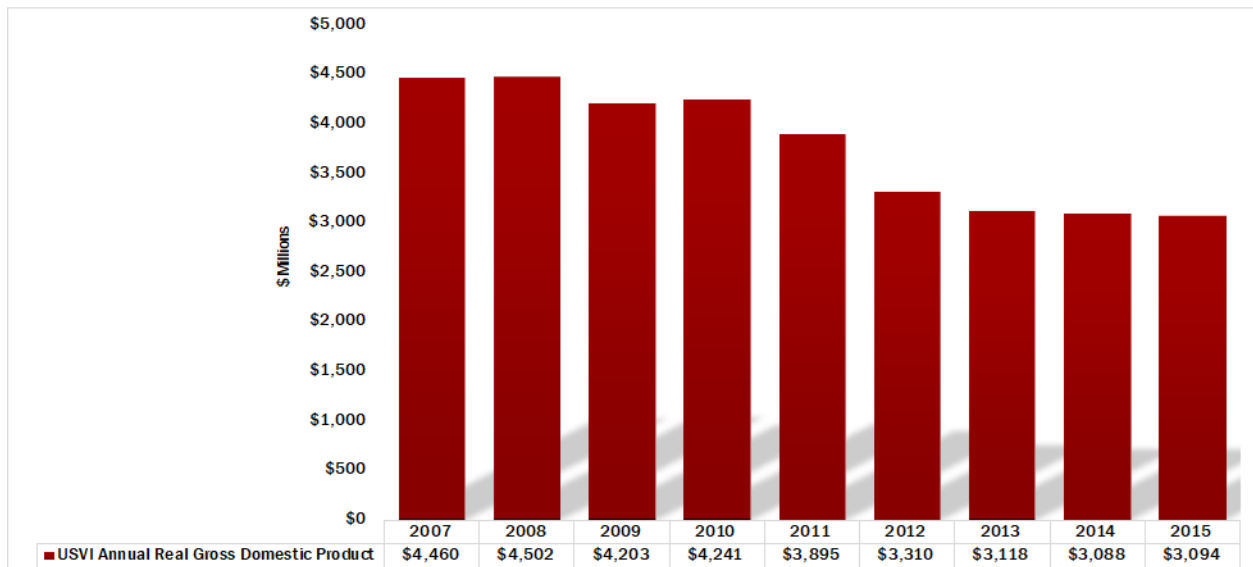
U.S.V.I. AVERAGE UNEMPLOYMENT INITIAL CLAIMS FY 2011-2017 1ST. QUARTER, YEAR-TO-DATE



Source: Bureau of Labor Statistics, Department of Labor
Data Compiled by: Bureau of Economic Research

Figure I-27: USVI Average Unemployment Initial Claims, FY 2011-2017 (1st Quarter)

U.S.V.I. REAL GROSS DOMESTIC PRODUCT 2007-2015



Source: U.S. Bureau of Economic Analysis
Data Compiled by: Bureau of Economic Research

Figure I-28: USVI Real Gross Domestic Product, 2007-2015

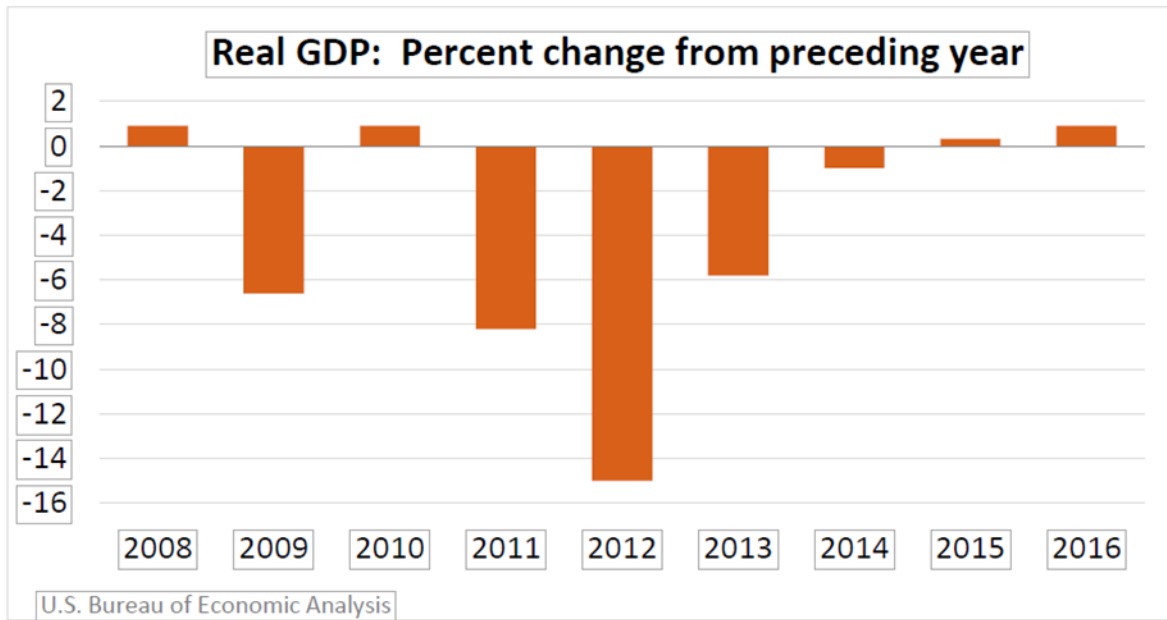
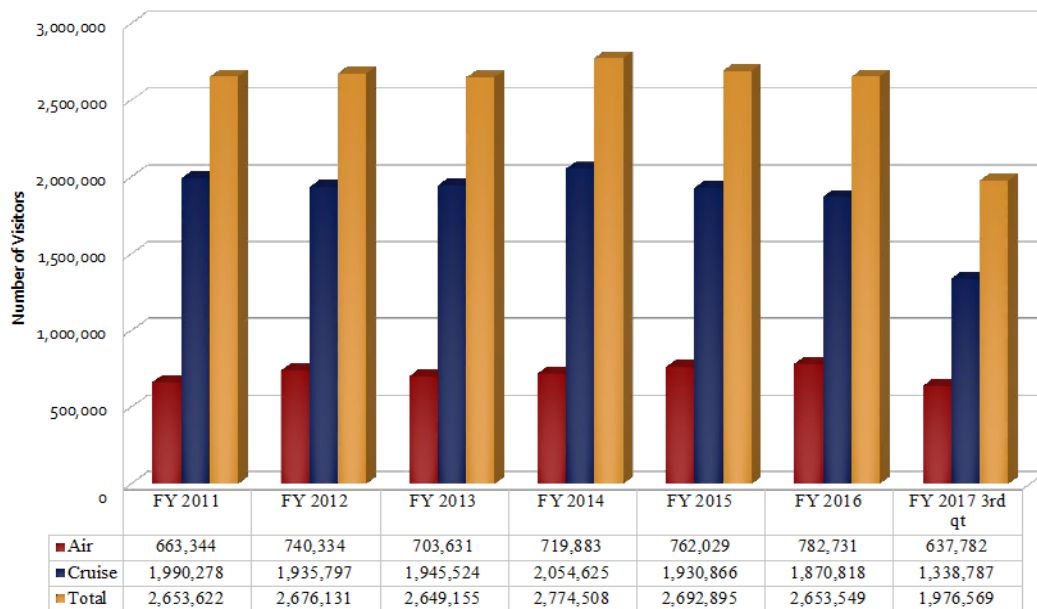


Figure I-29: USVI Real GDP, 2008-2016

U.S.V.I. VISITOR ARRIVALS FY 2011-2017 3rd Quarter YEAR-TO-DATE



Source: Port Authority and WICO
Data Compiled by: Bureau of Economic Research

Figure I-30: USVI Visitor Arrivals, FY 2011-2017 (3rd Quarter)

U.S.V.I. BUILDING PERMIT VALUES FY 2011-2017 1ST. QUARTER YEAR-TO-DATE

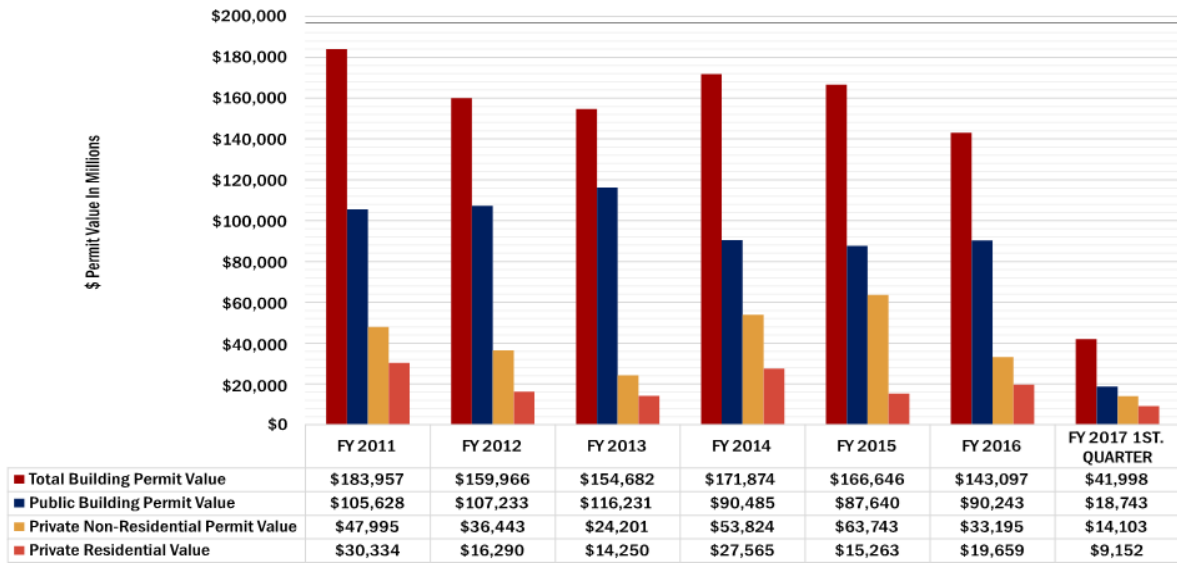


Figure I-31: USVI Building Permit Values, FY 2011-2017 (1st Quarter)

U.S.V.I. AVERAGE NUMBER OF HOMES AND CONDOS SOLD CY 2011-2016

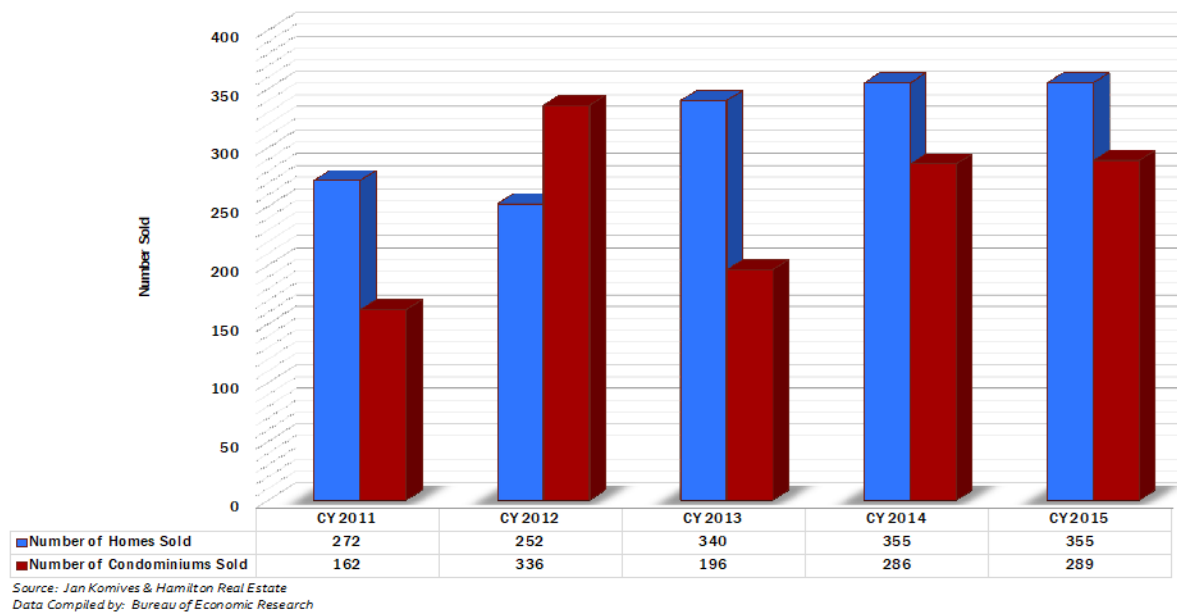
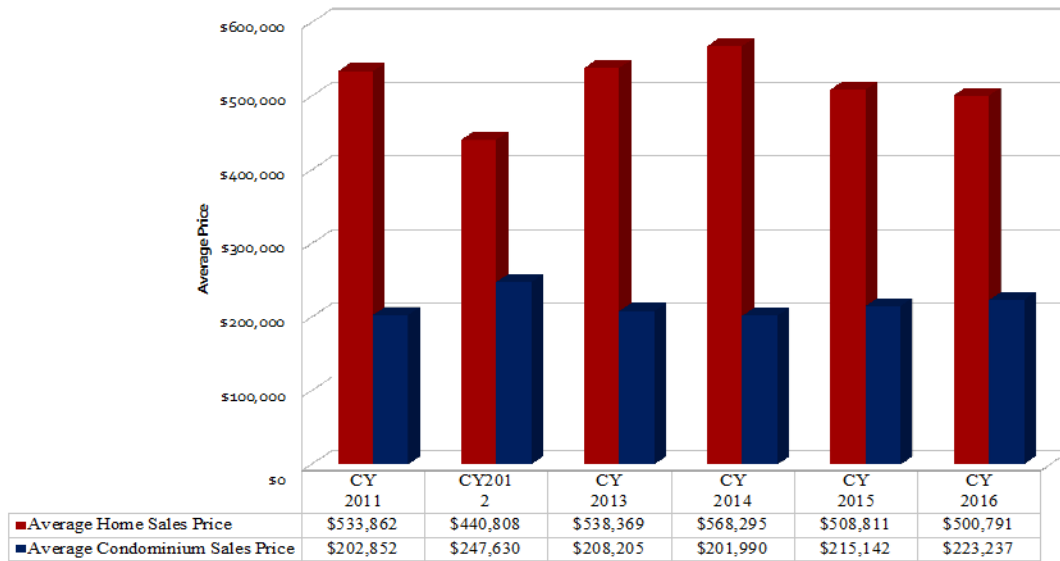


Figure I-32: USVI Average Number of Homes and Condos Sold, CY 2011-2016

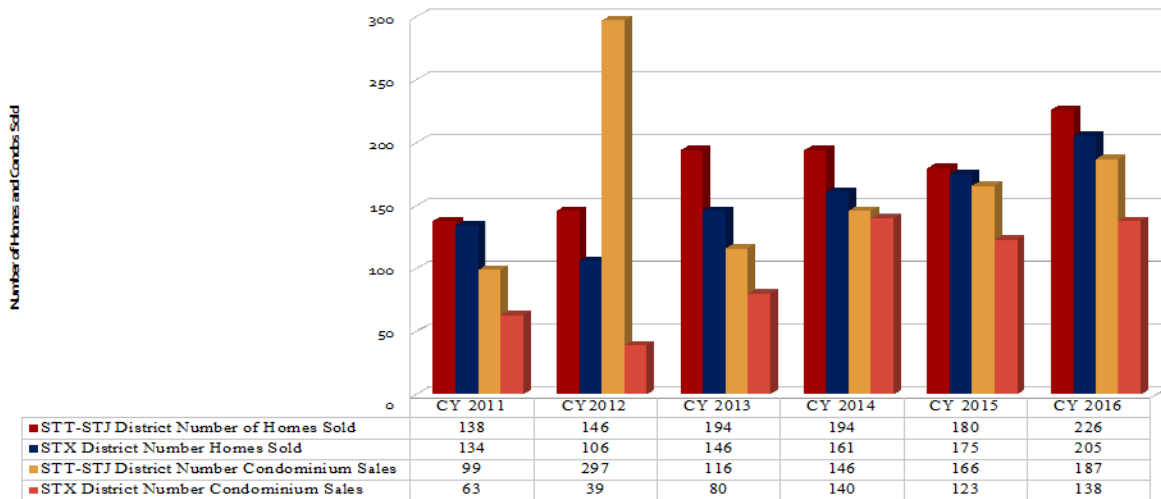
U.S.V.I. AVERAGE SALES PRICE OF HOMES AND CONDOS CY 2011-2016



Source: Jan Komives & Hamilton Real Estate
Data Compiled by: Bureau of Economic Research

Figure I-33: USVI Average Sales Price of Homes and Condos, CY 2011-2016

U.S.V.I. AVERAGE SALES PRICE OF HOMES AND CONDOS CY 2011-2016 BY DISTRICT



Source: Jan Komives & Hamilton Real Estate
Data Compiled by: Bureau of Economic Research

Figure I-34: USVI Average Sales Price of Homes and Condos, CY 2011-2016 by District

Within this economic and social context, the USVIEDA, through the EDC and other authorized programs, can be a major contributor to the recovery of the Territory's economy both in the short and long term. This can be done by the following:

- Leading the development of a collaborative strategic plan for the Territory upon authorization of the Office of the Governor.
- Taking steps to ensure that a significant portion of the charitable contributions, non-compliance fines, and other categories of income are channeled for education and health development and sustainability.
- Launching an aggressive marketing campaign to encourage business retention and business attraction to the Territory in a planned and sustainable way.

The Broader Regional Context

Like other United States territories, the USVI sits in a region with many other non-U.S. states and territories. Because of the interconnectedness of the Caribbean and the movement of people across the region, the influence of the USVI reaches far beyond its shores.

Many of the surrounding islands include current and former United Kingdom colonies together with current departments and territories of France and the Netherlands. Although the USVI is not a part of the regional Caribbean Community (CARICOM), Organization of Eastern Caribbean States (OECS), and Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) groupings, it has attended and observed some of these gatherings. Beginning in the 1970s there has been a steady flow of Caribbean nationals into the USVI for purposes of work and higher education. In 2010, approximately 21% of the Territory's population consisted of individuals who migrated from the region (U.S. Census Bureau 2010).

The USVI and the wider Caribbean region face some of the same challenges including the following:

- The need to develop sustainable energy security to overcome threats to the environment while significantly lowering production costs.
- The need to further diversify tourism-based economies to ones that include manufacturing, financial services, agriculture and fishing, and STEM – science, technology, engineering, arts, and mathematics.
- The need to significantly increase the number of persons with degree or certificate qualifications.

The USVI has the opportunity to help frame the future of the region through its institution of higher education, increases in the number of persons who visit the Territory for purposes of shopping and other forms of commerce and trade, and the further development of marine and maritime programs.

Part Two: EDC as an Enterprise

The Economic Development Commission provides the environment in which recipients of tax incentives operate. These companies collectively employ a significant number of residents, purchase goods and services from local businesses, engage in construction and other forms of property development, and make significant charitable contributions to the Virgin Islands community. The EDC companies also contribute to the economic stability of the Territory through community-wide spending by employees and visitors to the companies.



Seaborne Airlines, USVI

This part of the report examines the collective impact of the EDC companies as a major local and regional enterprise.

EDC Revenues

The EDC Program impact on the Territory goes beyond the direct spending on construction, rentals, payroll, and other local purchases. It also includes indirect and induced or multiplier effects. Payroll taxes are used to operate the Government, which pays employees, who spend their income in the Territory to buy goods and services from businesses, which procure more goods and services for purposes of recurring spending. Employees also pay for housing, entertainment, transportation, food, and other needs from part of their salaries.

Using the IMPLAN input-output modeling system, a commonly used and internationally accepted economic analysis tool, an analysis was conducted to measure the indirect and induced effects of spending in the U.S. Virgin Islands by EDC companies. We estimate that through these effects, EDC companies' spending on payroll, purchasing, construction, and other eligible activities from 2013 through 2015 directly and indirectly accounted for the following:

- 19,308 person-years of employment in the USVI during that three-year period;
- Nearly \$1,017,011,000 in wages and salaries; and
- More than \$1,480,968,000 in Territory-wide economic output.

In addition, other revenue impacts during this period included:

- \$309,446,213 in taxes and duties; and
- \$9,698,447 in charitable contributions.

As previously stated, *supra* at page 6, the data and analyses presented above may not capture the impact of some types of ancillary spending for which EDC beneficiaries are at least partly responsible, such as spending by hotel guests that might occur off-premises, such as spending in

local shops and restaurants, on local transportation or on entertainment. For this reason, as well, the impacts presented above may be understated.

OVERALL DIRECT AND INDIRECT ECONOMIC OUTPUT

When combined, we estimate that in FYs 2013, 2014, and 2015 spending by USVIEDC clients on payroll, purchases, and capital spending directly and indirectly accounted for:

- 19,308 FTE jobs in the USVI
- Nearly \$1,017,011 in wages and salaries
- More than \$1,480,968 in Territory-wide economic output

Other revenue impacts include:

- \$309,446,213 in taxes and duties paid
- \$9,698,447 in charitable contributions made
- Overall direct and indirect impact of \$1,800,112,660
- (*plus an estimated additional 2,300 FTE jobs by \$172,415,288 EDC clients guest spending in the community)



Figure II-1: Overall Direct and Indirect Economic Output

EDC as a Job Generator

Clients within the EDC Program are required by law to ensure that at least 80% of all employees are residents of the United States Virgin Islands and after the third year of operation, are required to have at least 20% of its management, supervisory and/or technical positions filled by residents. Employees are required to be paid at or above the existing living wage and receive a benefits package inclusive of health insurance, vacation and sick days, holiday leave, pension, professional development, and tuition remission, among others. Figure II-2 shows a decrease over time in the number of persons reported as being employed by the beneficiaries. This may be due in part to the increased competition from other jurisdictions including Puerto Rico, an amendment to EDC legislation allowing for a reduced number of employees for financial services companies, as well as the lingering effects of the recession and tough economic times across the Territory. The decline may also reflect incomplete reporting by some beneficiaries in 2014 and 2015.

Figure II-3 also shows data indicating a decrease in the earnings of suppliers and contractors in 2015, as opposed to higher earnings in the previous two years, while direct beneficiary payroll increased in 2015 after absorbing a significant drop in 2014.

Employment by Type of Impact, 2013-2015

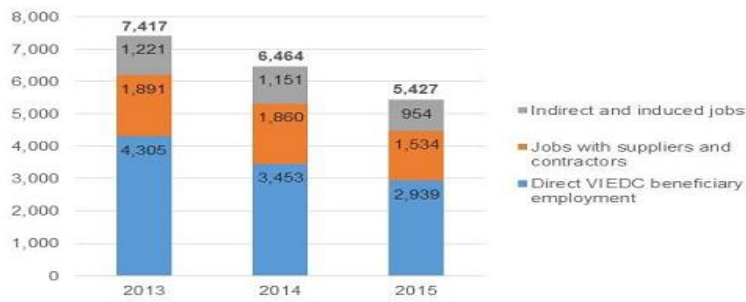


Figure II -2: Employment by Type, 2013 - 2015

Earnings by Type of Impact, 2013-2015 (in \$ millions)

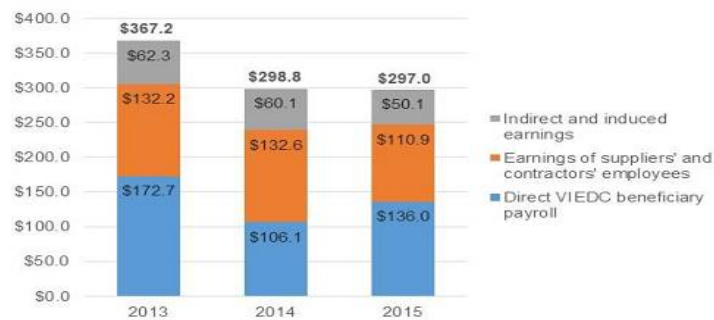


Figure II-Error! No text of specified style in document.3: Earnings by Type of Impact, 2013 - 2015

Output by Type of Impact, 2013-2015 (in \$ millions)



Figure II-4: Output by Type of Impact, 2013 - 2015

Indirect and Induced Effects

The indirect and induced effects of EDC company spending extend into the community and impact many restaurants, stores, pleasure activities, and transportation modes that EDC visitors utilize when visiting the Territory. Many jobs are supported as a result of commerce transactions and the spending that those visitors inject into the economy. Using the IMPLAN input-output modeling system we estimate that through these effects of indirect and induced employee spending and supplier spending, EDC clients for the period 2013 to 2015 indirectly accounted for the following:

- 3,326 jobs in the USVI
- More than \$172,498 in wages and salaries
- Nearly \$405,394 in Territory-wide economic output

Direct, Indirect, and Induced Effects of EDC Spending

Taking into account the number of people employed directly by EDC companies and their wages and salaries, the direct impact of EDC companies' spending on purchasing and construction from local vendors and contractors, and the indirect and induced impact of EDC companies' spending on payroll, purchasing, and construction, we estimate that during the period 2013-2015, EDC client spending directly and indirectly accounted for the following:

- 19,308 person-years of employment in the U. S. Virgin Islands during that three-year period;
- \$1,017,011,000 in wages and salaries;
- More than \$1,480,112,968 in Territory-wide economic impact.

Direct, Indirect and Induced Impacts of VIEDC Beneficiaries' Operations in the USVI, 2013 (wages and output in \$000s of 2013 dollars)

| | Jobs | Wages | Output |
|---|--------------|--------------------|--------------------|
| Direct spending impact | | | |
| Payroll | 4,305 | \$172,714.6 | \$172,714.6 |
| Purchasing/capital expenditures | 1,891 | \$132,163.3 | \$213,209.6 |
| <i>Subtotal, direct impact</i> | <i>6,196</i> | <i>\$304,877.9</i> | <i>\$385,924.2</i> |
| Indirect and induced effects | | | |
| Employee spending | 597 | \$29,361.8 | \$71,313.8 |
| Supplier spending | 624 | \$32,953.6 | \$75,246.8 |
| <i>Subtotal, indirect/induced effects</i> | <i>1,221</i> | <i>\$62,315.4</i> | <i>\$146,560.6</i> |
| Total | 7,417 | \$367,193.2 | \$532,484.7 |



Figure II-5: Direct, Indirect and Induced Impacts of VIEDC Beneficiaries' Operations in the USVI, 2013

Direct, Indirect and Induced Impacts of VIEDC Beneficiaries' Operations in the USVI, 2014 (wages and output in \$000s of 2014 dollars)

| | Jobs | Wages | Output |
|---|--------------|--------------------|--------------------|
| Direct spending impact | | | |
| Payroll | 3,453 | \$160,139.1 | \$160,139.1 |
| Purchasing/capital expenditures | 1,860 | \$132,590.4 | \$215,994.4 |
| <i>Subtotal, direct impact</i> | <i>5,313</i> | <i>\$292,729.5</i> | <i>\$376,133.6</i> |
| Indirect and induced effects | | | |
| Employee spending | 543 | \$27,190.2 | \$66,130.8 |
| Supplier spending | 608 | \$32,876.0 | \$75,114.3 |
| <i>Subtotal, indirect/induced effects</i> | <i>1,151</i> | <i>\$60,066.2</i> | <i>\$141,245.1</i> |
| Total | 6,464 | \$352,795.7 | \$517,378.6 |



Figure II-6: Direct, Indirect and Induced Impacts of VIEDC Beneficiaries' Operations in the USVI, 2014

Direct, Indirect and Induced Impacts of VIEDC Beneficiaries' Operations in the USVI, 2015 (wages and output in \$000s of 2015 dollars)

| | Jobs | Wages | Output |
|---|--------------|--------------------|--------------------|
| Direct spending impact | | | |
| Payroll | 2,939 | \$136,011.1 | \$136,011.1 |
| Purchasing/capital expenditures | 1,534 | \$110,895.1 | \$177,534.5 |
| <i>Subtotal, direct impact</i> | <i>4,473</i> | <i>\$246,906.2</i> | <i>\$313,545.6</i> |
| Indirect and induced effects | | | |
| Employee spending | 459 | \$23,233.7 | \$56,183.8 |
| Supplier spending | 495 | \$26,882.1 | \$61,374.5 |
| <i>Subtotal, indirect/induced effects</i> | <i>954</i> | <i>\$50,115.9</i> | <i>\$117,558.3</i> |
| Total | 5,427 | \$297,022.0 | \$431,103.9 |

Figure II-7: Direct, Indirect and Induced Impacts of VIEDC Beneficiaries' Operations in the USVI, 2015

Contributions to Government Revenues

Despite the many tax incentives EDC clients receive, EDC company operations generate tax revenues for the Government of the United States Virgin Islands. Incentives include:

- 90% reduction in corporate income tax;
- 90% reduction in personal income tax;
- 100% exemption on excise tax;
- 100% exemption on property taxes and gross receipt tax;
- No state or Territory tax.

It should be noted that the USVI uses a mirror system of taxation ("Mirror Code"), where USVI taxpayers return taxes to the Virgin Islands Bureau of Internal Revenue to the same extent other U.S. taxpayers would under the Internal Revenue Code. EDC clients withheld the following amount of income taxes from the wages and salaries paid to EDC employees and paid duties in the amount of **\$309,446,213** over the period of 2013-2015. This amounts to approximately 33% of all of the individual income taxes collected during the stated period.

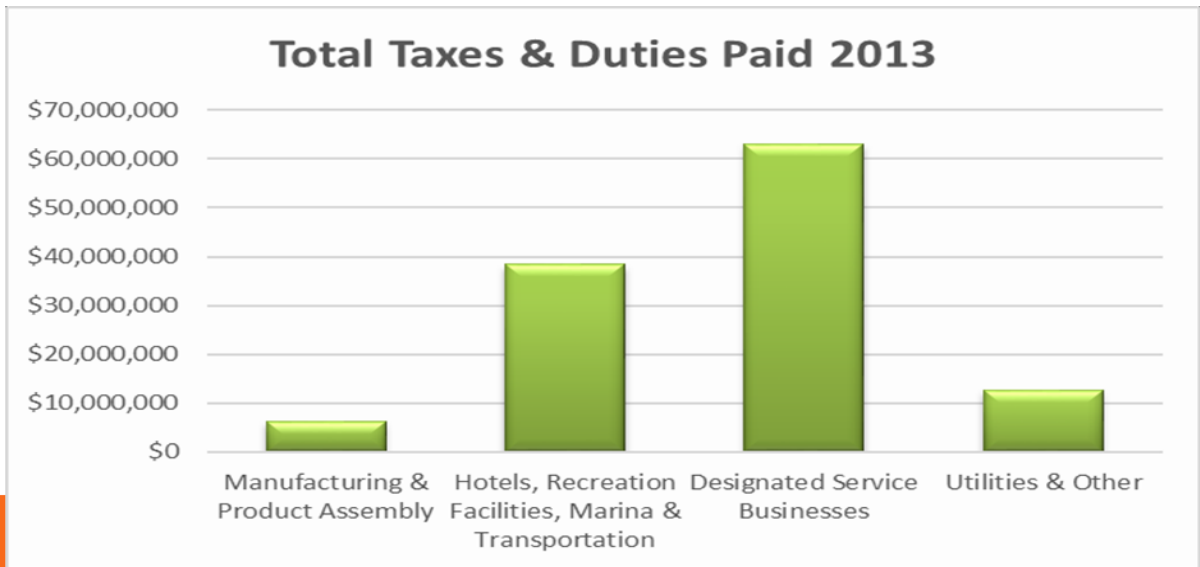


Figure II-8: Total Taxes & Duties Paid 2013

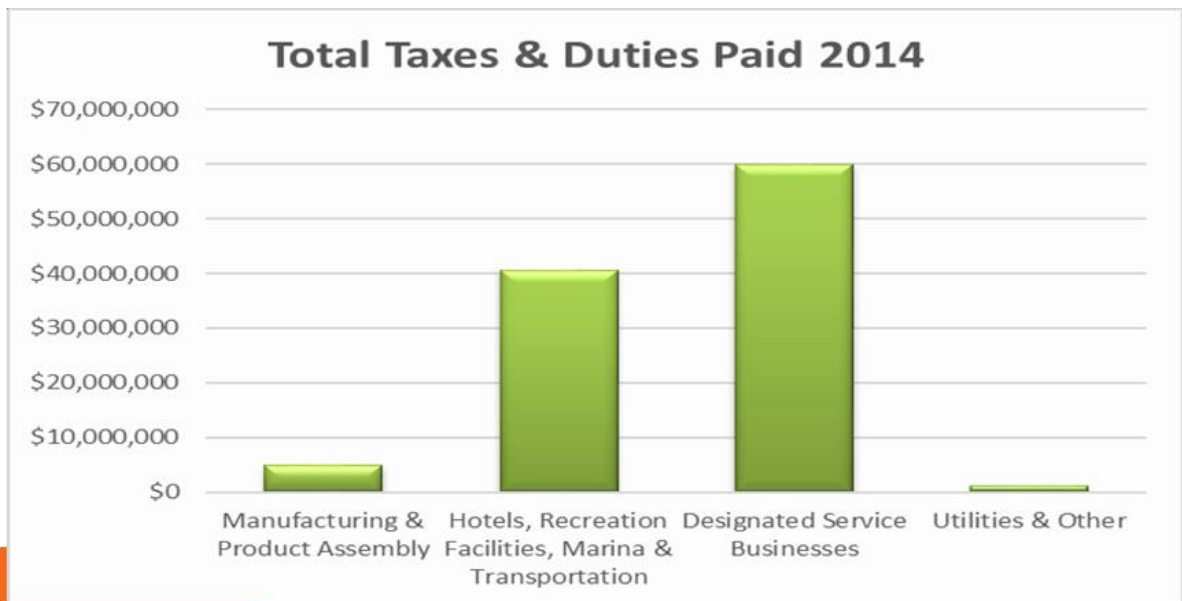


Figure II-9: Total Taxes & Duties Paid 2014



Figure II-10: Total Taxes and Duties 2015



University of the Virgin Islands, St. Thomas Campus

Part Three: Developing Human Capital Employment by EDC Beneficiaries

In many cases during the period of this report, the owner(s) of EDC companies also served as employees in the organization in the capacity of chief executive officer. As part of their commitment on the certificate, the owners commit to promoting the USVI both nationally and internationally. They also contribute to the economic well-being of the Territory through education, human resource development, and the support of social and community organizations.

Where EDC Employers Live

As noted by law, EDC employers are required to live in the Territory for at least 183 days per calendar year. Owners not only adhere to this requirement, but also file their worldwide income in the Territory as a further measure of their commitment to the economic stability of the USVI. Owners either build homes and offices in the Territory or rent competitively priced real estate that may readily be available for use for those purposes. In addition, the many business and private visitors that come to the USVI to meet and interact with the owners or the companies contribute to the economy through hotel or villa stays, eating in restaurants, utilizing various modes of transportation, and engaging in entertainment activities.

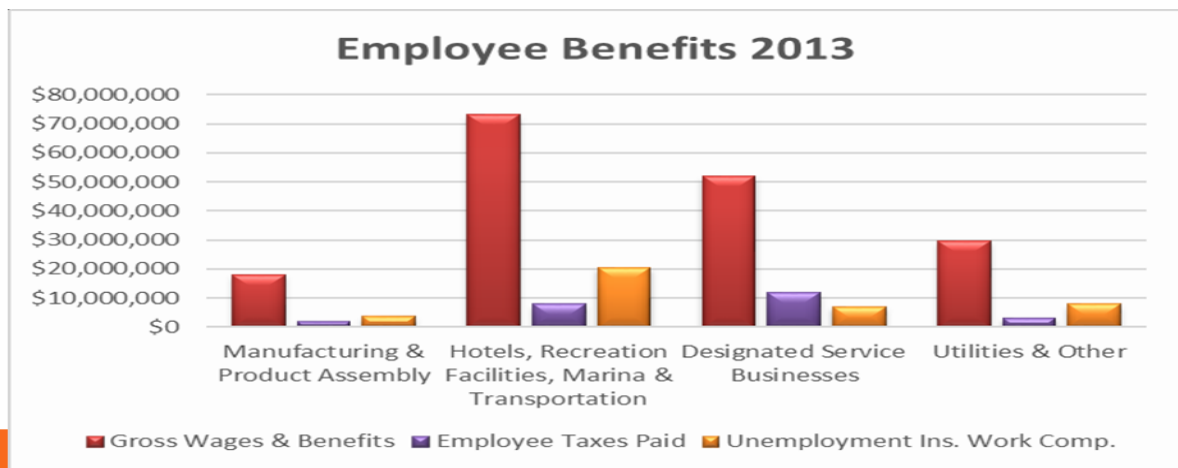


Figure III-1: Employee Benefits 2013



Figure III-2: Employee Benefits 2014

Impact of EDC Employment on Workers' Earnings

Employees of EDC clients are generally paid above the USVI Minimum Wage and the Living Wage as produced by the USVI Department of Labor and outlined in EDC documents. As a result of the wage levels, employees receive a representative package of gross wages and benefits, unemployment insurance/workman compensation, and various forms of professional development opportunities. The USVI Occupational Employment Survey (OES) program developed by the USVI Department of Labor produces employment and wage estimates for over 800 occupations across the Territory. These are estimates of the number of jobs in the certain occupations and the wages paid for those jobs. Clients in the EDC program are expected to pay those wages, which in most cases exceed the minimum wage for the job.

The foregoing and following figures show employee benefits for the period of 2013 through 2015. The hotel, recreation facilities, marina, and transportation sectors have held steady over the stated period, while the designated services have increased. Manufacturing and product assembly as well as utilities and others have fluctuated over the same time period.



Figure III-3: Employee Benefits 2015

Helping Residents Prepare for Careers in Key Industries

In addition to a wide range of on-the-job training, seminars and workshops, and attachments at the owners' other stateside entities, employees have the opportunity to receive tuition reimbursement and academic scholarships. EDC clients collectively contribute approximately \$300,000.00 annually to the University of the Virgin Islands or use as scholarships to deserving students primarily on the basis of merit. Scholarship recipients have the opportunity to meet and interact with the donors at specified times throughout the year. Each year, a significant amount of funds are contributed to the Territorial Scholarship Fund ("Fund") under the management of the USVI Board of Education (See 17 V.I.C. §171). This Fund is used to improve education classroom infrastructure at the elementary and secondary levels as well as to provide scholarships to deserving Virgin Islanders to pursue higher education opportunities, whether inside or outside the Territory. Re-examining the purpose and use of this Fund may better improve the readiness of residents to meet the expanding staffing needs of EDC clients and further expand the economic impact of the Program on the Territory.

Contributions to Education

EDC clients also contribute to education in a variety of other ways. The 13D Entrepreneurship Competition and the Hackathon, both at the University of the Virgin Islands, have been sponsored by EDC clients since their inception. Many EDC clients also make annual charitable contributions to the University of the Virgin Islands as well as to non-governmental and community organizations to engage in education-related activities in support of the residents of the Territory. A more strategic approach to economic development in the USVI, as seen through the lens of a new collaborative strategic plan, could significantly help leaders and stakeholders determine what should be done, what could be done, and what will be done within set timelines and reporting periods to fundamentally enhance the economic situation of the Territory, improve wages and employment opportunities, strengthen the industries and services, and enhance the quality of life for Virgin Islanders and all those who visit, live, and work in the USVI.

Educational Attainment by Island: 2013

| Education Level | St. Croix | St. John | St. Thomas |
|----------------------------------|---------------|--------------|---------------|
| Persons 25 years and over | 34,994 | 3,386 | 37,997 |
| Less than 9th grade | 4,975 | 419 | 4,898 |
| 9th to 12th grade | 5,835 | 399 | 6,495 |
| High school graduate (or GED) | 11,935 | 1,074 | 13,580 |
| Some college, no degree | 4,524 | 439 | 4,772 |
| Associate degree | 1,797 | 604 | 1,632 |
| Bachelor degree | 4,056 | 259 | 5,197 |
| Post-Bachelor degree | 1,871 | 193 | 1,423 |
| Percent high school or above | 69.1 | 75.9 | 70.0 |
| Percent bachelor degree or above | 16.9 | 13.3 | 17.4 |

Source: 2013 Virgin Islands Community Survey, Eastern Caribbean Center, University of the Virgin Islands

Figure III-4: Educational Attainment by Islands, 2013



Gallows Bay Port, St. Croix, USVI

Part Four: The Role of EDC Companies by Category

Applicants may receive benefits from the EDC provided that they provide full-time employment for a set number of persons; invest at least \$100K, exclusive of inventory in an industry or business that advances the economic well-being of the Territory; be an actual investor and meet the requirements of the Internal Revenue Code Sections 932, 934 and 937; purchase goods and services locally; and comply with federal and local laws, among other things. Beneficiaries are categorized as follows:

Category I: Manufacturing & Product Assembly

These are also known as legacy Virgin Islands' industries and include watch and jewelry manufacturing and assembly, rum production, and milk/dairy production.

Category II: Product Assembly and Repair

These include product assembly, manufacturing, repair and maintenance including but not limited to machine and heavy equipment, bottling and packing, agriculture/mariculture and food processing, and marine and aircraft industry.

Category III: Hotel, Recreation Facilities, Marina, & Transportation

This category includes recreation and retirement facilities, transportation, telecommunications, healthcare, hotel and guest houses, and utilities including alternative energy industries.

Category IV: Designated Services Businesses

Include business and management consulting, software development, intellectual property, medical, investment managers and advisors, international banking and insurance agencies, commercial distribution and trading services, public relations' services, family offices, call centers, venture capital management and investment, film and print industries, among others.

Category V: International Financial Services Entity

Includes corporate business, banking, insurance, trust, estate, succession planning, shipping and aircraft registration, and investment funds. An applicant seeking benefits as a Category V international financial services entity is exempt from 29 V.I.C. § 708--Specific Requirements for Granting of Benefits and its accompanying regulations-- but shall comply with 9 V.I.C. §§ 727 and 738 and their accompanying regulations.

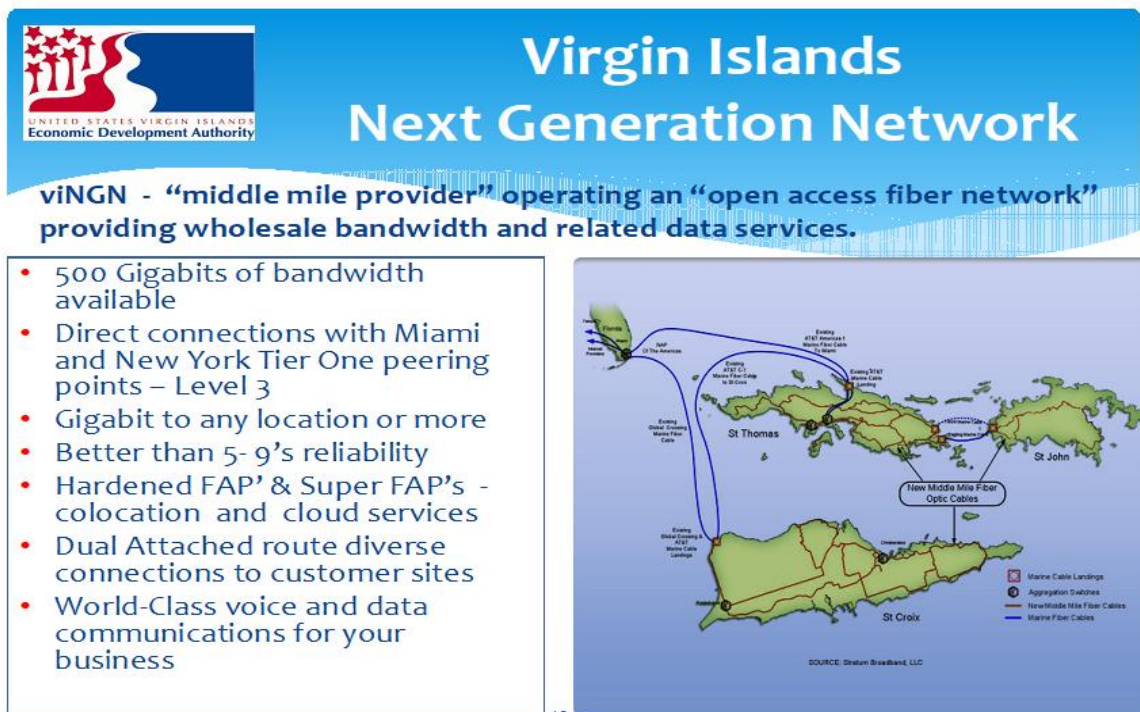


Figure IV-1: Virgin Islands Next Generation Network



Charlotte Amalie Harbor, St. Thomas, USVI

Part Five: Entrepreneurship and Economic Development

Developing a New Generation of Entrepreneurs

Through the Small Business Incubator Program, many EDC companies headed by young entrepreneurs have been able to receive a strong start in their endeavors. Many of these companies have been successful in activities such as solar farm projects, pharmacies, and fiber optic technologies by means of the Virgin Islands Next Generation Network, and software programming in collaboration with the University of the Virgin Islands.

In addition, through the Sustainable Tourism through Arts-based Revenue Stream (STARS) program, many entrepreneurs have the opportunity to engage in film and music production to include documentaries, commercials, television programs, magazine advertising, music videos, and motion pictures. Full implementation of this program could have a significant impact on the revenues of the Territory due to the natural beauty and aesthetics of the islands.



Figure V-1: Total Purchases 2013

Supporting Small Business Development through Local Purchases

One of the signature programs of the EDC is the Eligible Suppliers Program (ESP). Eligible suppliers consist of small businesses licensed and operating in the USVI and have conducted business in the Territory for at least one year. EDC clients are required to purchase goods and services from eligible suppliers in keeping with the tax incentives granted in their certificates. EDC companies are further required to advertise twice a year for goods and services used on an ongoing basis. This requirement further enhances the impact of the clients on the Territory for providing and supporting induced jobs, which result in additional taxes to the Government and personal enhancement for individuals.



Figure V-2: Total Purchases, 2014



Figure V-3: Total Purchases, 2015

Collaborating in Economic Development

One of the more outstanding challenges faced by the EDC program is the appearance that tax incentives granted to qualifying companies are a gift from the Territory. Residents opine that the tax incentive benefits amount to revenues lost by the Territory. It should be noted, however, that although beneficiaries received approximately \$1 Billion in tax benefits during the period of 2013 to 2015, they also contributed \$2 Billion in real and induced taxes and benefits to the Territory. This is, indeed, new money that the Territory did not have previously, which significantly impacts the lives of residents and increases the annual tax contributions of the USVI. Every effort should be made by USVIEDA and EDC to share pertinent information with the public about the purpose and benefits of the EDC program to the Territory in an effort to help allay any perceived fears or concerns the public may have about the value of the Program to the USVI. It may also be helpful to publish annual reports not only on the Authority's Website but also place excerpts on the other available media across the Territory.

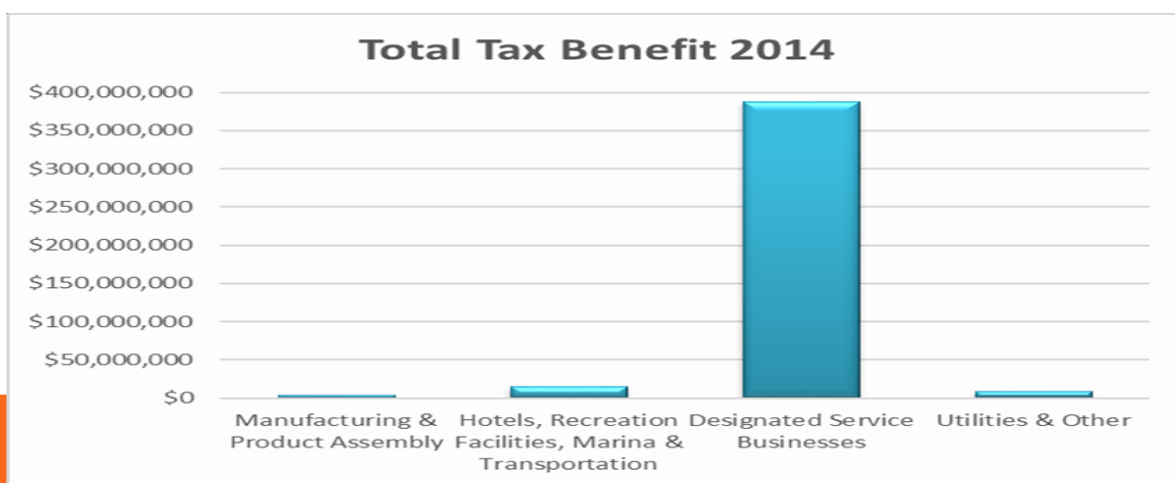


Figure V-4: Total Tax Benefit, 2014

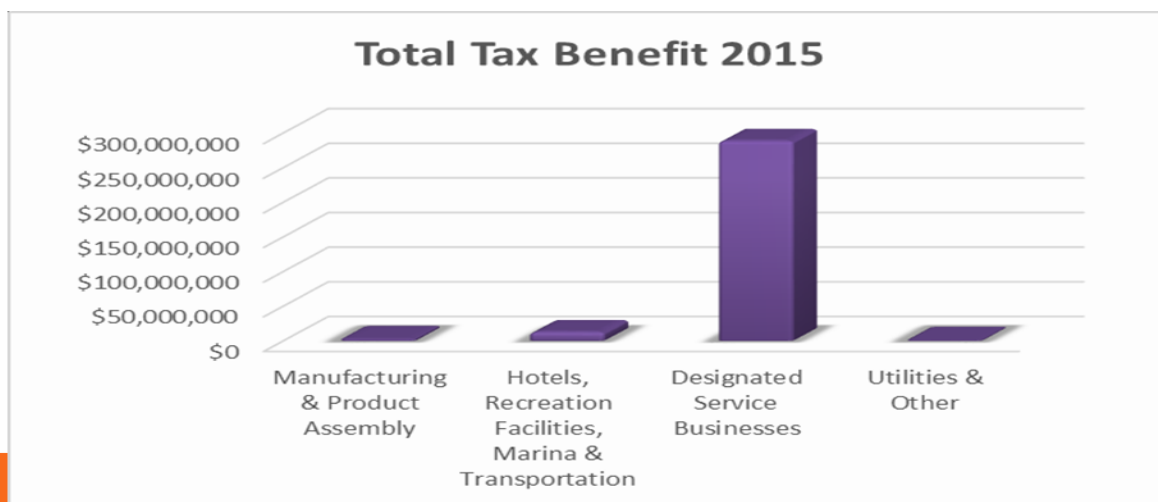


Figure V-5: Total Tax Benefit, 2015

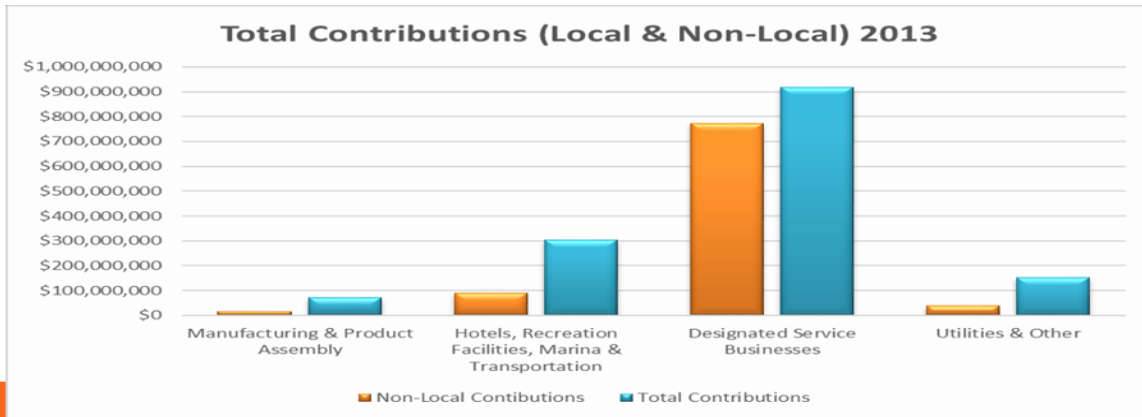


Figure V-6: Total Contributions, Local and Non-Local, 2013

Although the category of designated service businesses received the highest level of tax benefits, they made significantly higher local and non-local contributions in 2013, but were surpassed by the hotel, marine, recreational facilities, and transportation industries in 2014 and 2015. Manufacturing and product assembly as well as utilities and other industries also made smaller but significant contributions to the economy during the stated period.

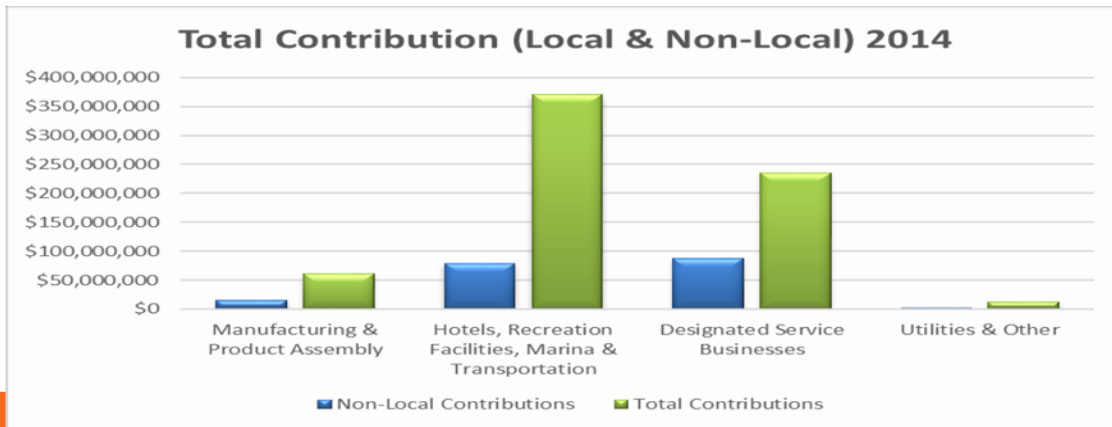


Figure V-7: Total Contributions, Local and Non-Local, 2014

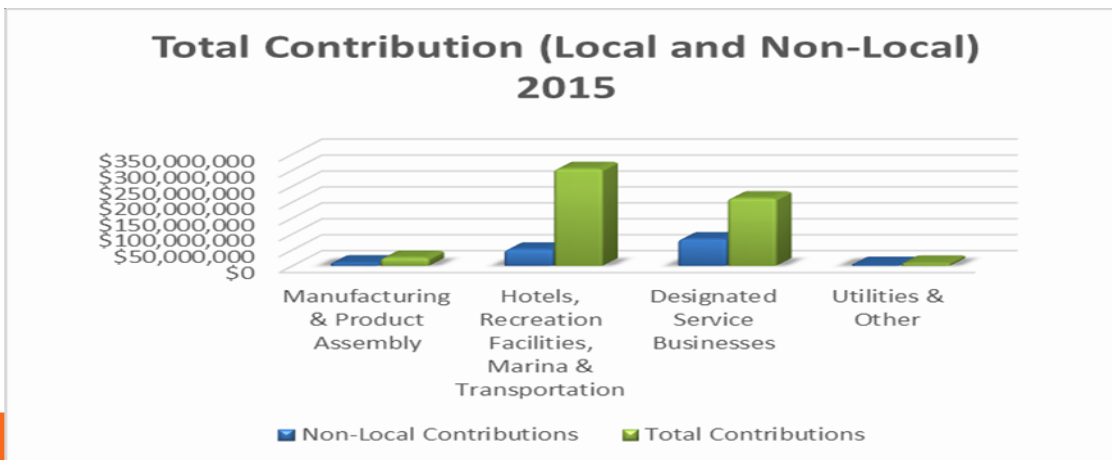


Figure V-8: Total Contributions, Local and Non-Local, 2015



Point Udall, St. Croix, USVI

Part Six: Outreach and Community Engagement

Charitable Contributions

Over the period 2013 to 2015, charitable contributions amounted to approximately \$10 Million. Charitable contributions support a wide range of community programs across the Territory. Recipients are able to use the donations to provide academic and social services for children, extend care to animals, support sporting and recreational activities, grant both merit and need-based scholarships to worthy students, and support arts-based programs across the community, among others.

Education and Youth Development

One of the more profound aspects of the EDC program is the level of support given by the clients to education and youth development programs. Many companies partner with the Department of Education and the University of the Virgin Islands to provide hands-on internships and other development programs for persons across the Territory. Students are able to participate in real-life simulated experiences, participate in software development, and engage in real employment as they prepare for entry into the workforce.

A Business Resource for the Community

In addition to contributions made through payment of employment taxes and other categories of taxes, EDC clients also serve as a business resource for the community. The hotel, marina, and transportation sectors provide in-kind space for a variety of activities and provide sponsorship or co-sponsorship for many community activities. The designated service businesses provide paid internships and sponsorships for youth and non-profit groups in addition to the financial resources and personnel hours contributed in support of community engagement. Manufacturing and utilities also do their part by sponsoring floats and troupes for the many festivals and carnivals celebrated across the Territory annually.

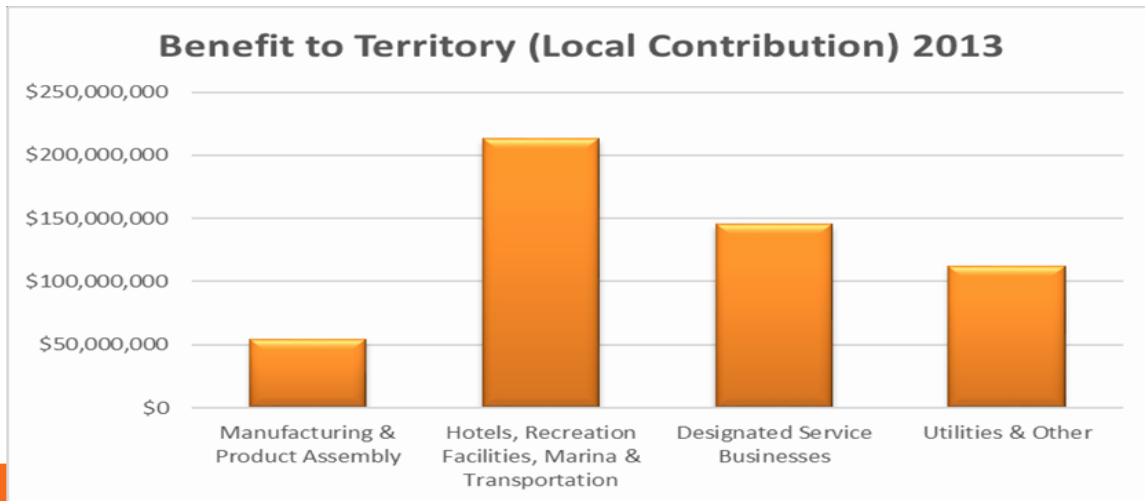


Figure VI-1: Benefit to the Territory, 2013

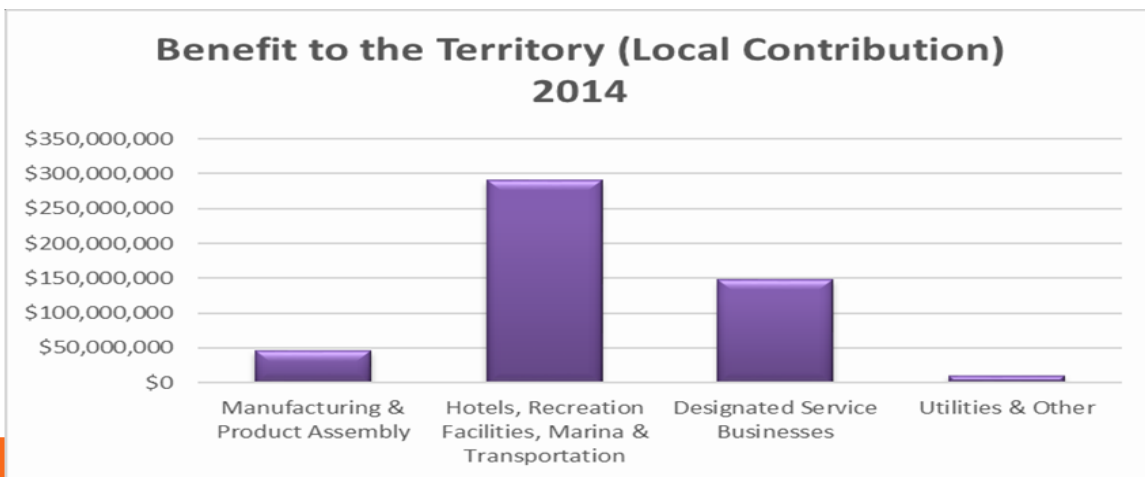


Figure VI-2: Benefit to the Territory, 2014

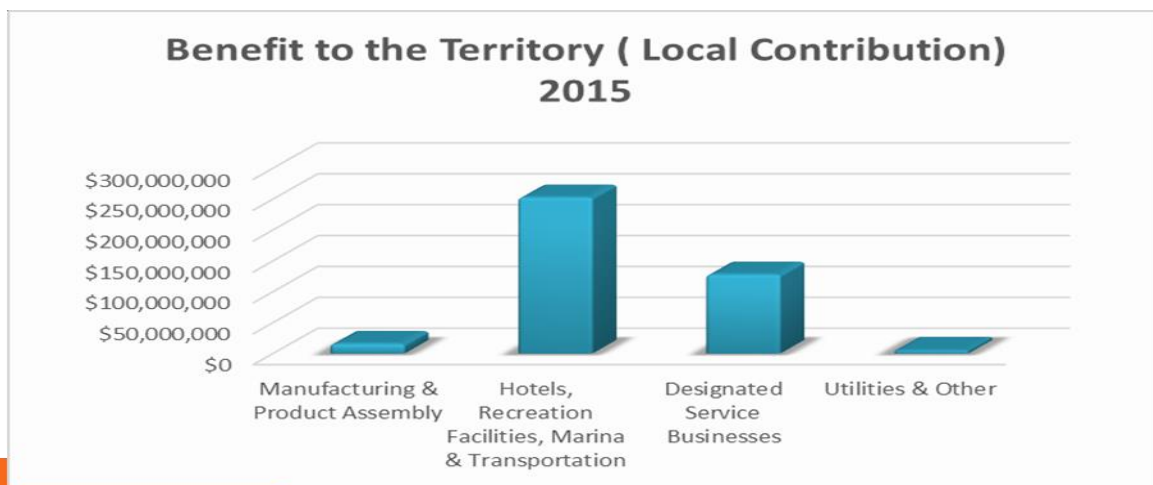


Figure VI-3: Benefit to the Territory, 2015

Other Community Initiatives

In addition to EDC clients' sponsored activities cited throughout this report, initiatives undertaken by EDC companies address a wide range of other community needs. Companies contribute to the hospitality and tourism program at the University of the Virgin Islands, provide expert staff to lecture on specific topics of interest to the social and economic fabric of the community, sponsor music and arts programs and use resources to help make the community safer for residents and visitors alike.

Building a Stronger Economy

Building and sustaining a stronger economy is a specific purpose of the EDC program. Whether it is through capital and other direct, indirect or induced investments and expenditures, the goal is to have a more stable and dynamic United States Virgin Islands. EDC programs and clients have demonstrated over and over again their commitment to employing more of the Territory's talent; making the Territory more attractive for people to invest, live, and do business; building the human resources capacity the USVI; and improving the quality of life for residents and visitors. With this approach and a collaborative strategic plan for the Territory, there is no telling what future positive impact the Territory will have for itself, the region and the world.

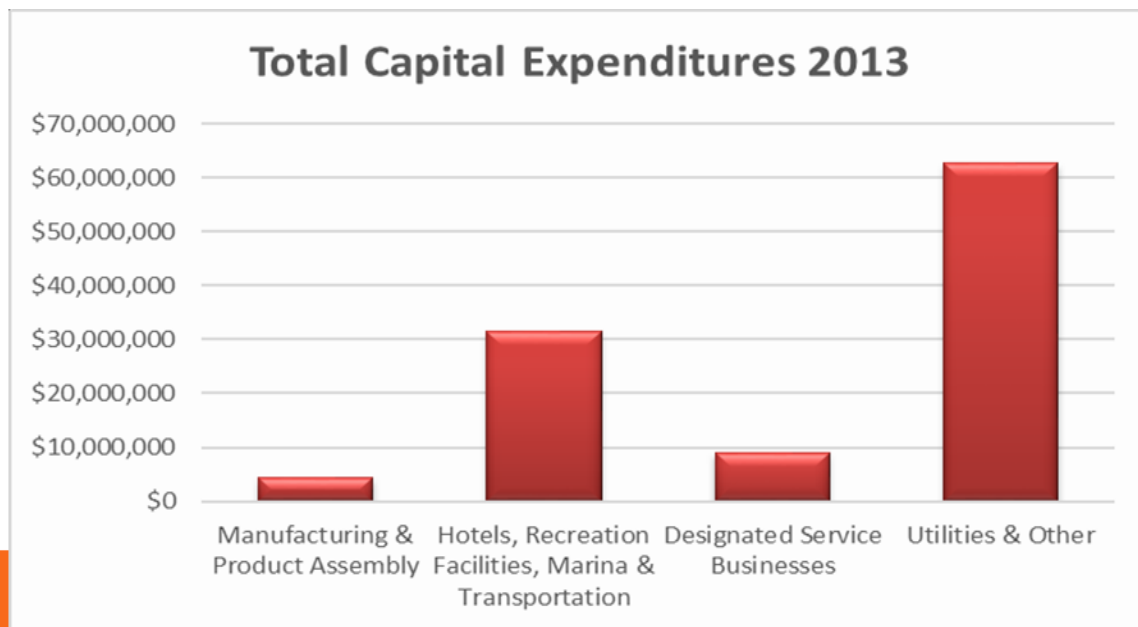


Figure VI-4: Total Capital Expenditures, 2013

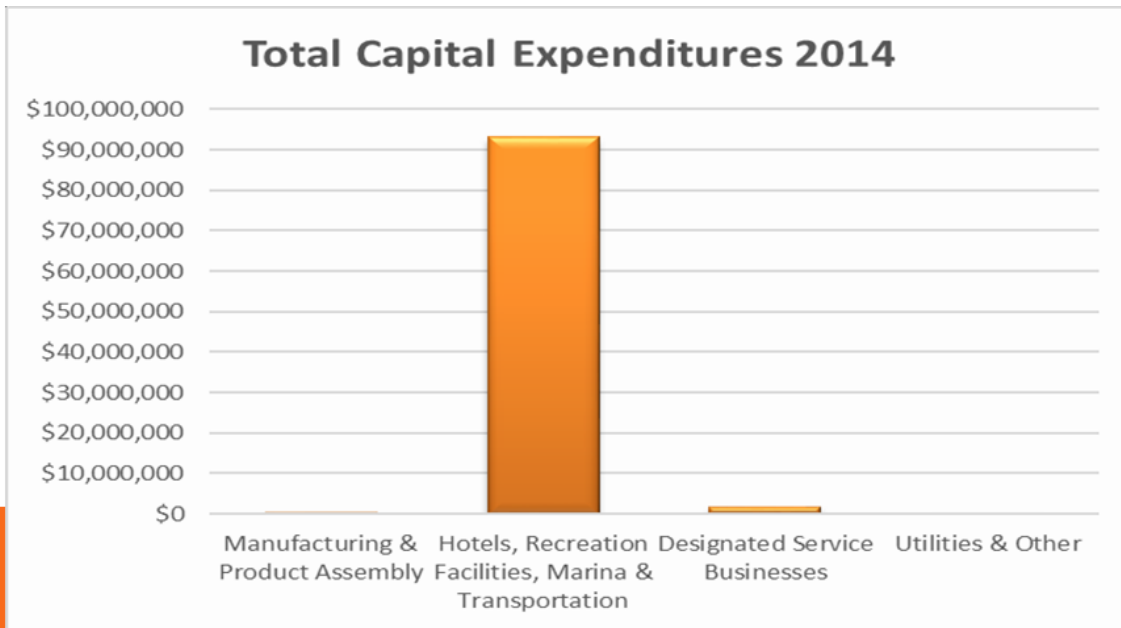


Figure VI-5: Total Capital Expenditures, 2014

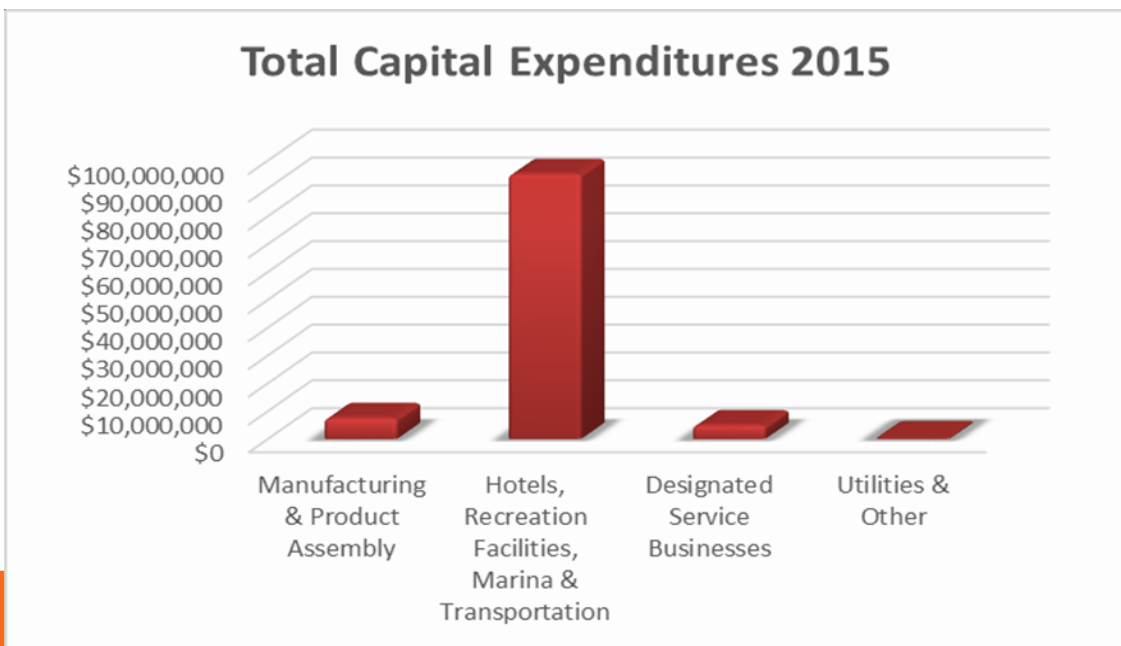


Figure VI-6: Total Capital Expenditures, 2015



Henry E. Rohlsen Airport, St. Croix, USVI

Part Seven: Contributing to the Development of the Region

Developing the Region's Human Capital

By extension, contributions to the University of the Virgin Islands have served well to not only develop the human resources of the Territory but also the human resources of the Caribbean region through graduates of the University. Contributions made to the Government Employees Retirement System (GERS) also impact the Territory and the region by supporting retired Virgin Islanders who now live in other parts of the region. This, of course, may not now impact the economy of the USVI as when those individuals lived and spent dollars in the Territory. GERS data indicate that approximately 1% of individuals who receive retirement benefits from the System live outside of the Territory.

Additionally, contributions to the University through scholarship, internships, and program development help to support student and faculty research that benefits not only the Territory but also the region. Because of the many similarities of geography, education, and social challenges, health and human development issues, research conducted by the University has benefited the region in the areas of health, marine conservation, education and social development, sports and recreation, and economic development, among others.

Services that Benefit the Region

The USVI serves as a transshipment port for many forms of goods and services for the region. Shipping lines and airlines transport thousands of people and tons of cargo to and from other regional destinations annually. Medical evacuation services with EDC benefits also based in the USVI assist people from across the region in accessing urgently needed medical help. Many regional nations also travel to the Territory to access services from the many categories of businesses under the EDC program, whether for health, recreation, and tourism purposes.

Manufactured Products

Products manufactured in the Territory are utilized not only on the United States mainland but also across the region. Rum, petroleum and petroleum products, jewelry, marine vessels, and other items and products are also utilized across the region. The USVI, the most easterly location of the United States, has the potential to do a great work by expanding its efforts of reshoring United States companies that could carry the “Made in America” brand while receiving the many tax incentives that the Territory has to offer. Because of the exemptions granted to the USVI under the Jones Act, any vessel can enter the USVI and transportation of goods between the USVI and other U.S. ports is not subject to be carried out by a vessel that was built in the U.S. and operated primarily by Americans. This Jones Act law applies to all U.S. ports with the exception of the U.S. Virgin Islands.

Business and Community

Many U.S. based companies could certainly use the USVI as their base for work regionally, nationally, and internationally. By helping build stronger communities throughout the region, the Territory is better positioning itself to benefit from the regional economies through the sale of goods and services, some of which are offered by EDC clients.



West Indian Company Dock, St. Thomas, USVI

Part Eight: EDC and the Future of the Virgin Islands' Economy

Growing Impact of Business Retention, New Business Development, and Relocation

Over the life of the EDC program, significant milestones have been made. Hotels and recreational facilities have been built, new financial services companies have been established or relocated to the Territory, rum and other forms of manufacturing have grown, telecommunications and technology companies have been launched, and marine and recreational facilities have been opened – all in the interest and support of economic development. These businesses must be maintained and retained, new businesses attracted and developed, and more site selection portfolios developed to encourage more U.S. companies to re-shore and use the USVI as their base or headquarters. The Immigrant Investor Program, also known as the EB-5 Program, should be strategically used and more foreign direct investments encouraged across the Territory.

The USVIEDA may conduct a feasibility study on the value of benefits provided to the Territory by the UVI RTPark, which is also authorized by VI Law to offer tax incentives to companies, and those transactions independently negotiated by the Government such as Diageo, Cruzan Rum, and Lime Tree Bay that may have different requirements for receipt of similar benefits. Every effort should be made to amend applicable legislation to allow the USVIEDA to operate as a true semi-autonomous agency with the requisite resources to carry out its mandates. The USVIEDA should also look at new and innovative ways to raise capital and work to expand the capacity of the Territory to strategically expand the EDC Program.

The USVIEDA EDC Program has the capacity to grow and provide the leadership that is needed to transform the USVI into a vibrant thriving hub of economic activity, recreation, business, finance, education, arts, and inter-island commerce, among others; and should join hands with the public and private sectors to develop a collaborative strategic plan for the Territory. Appreciative questions should be collaboratively designed to allow all parties to discuss what should be done, what could be done, what will be done, and set interim milestones that hold all parties accountable to progress and the wise use of resources to accomplish the vision.

Significant Business Advantages



Stronger Emphasis on Entrepreneurship and Innovation

As challenges of education and health face the Territory, there is a great opportunity for the EDC Program to attract more companies focused on providing cutting-edge research and innovative responses in health and education. Businesses that could enhance the Territory's approach to learning and that can provide advanced and sophisticated medical services could certainly embolden the work that is being done at the University of the Virgin Islands through its many schools and colleges. The proposed School of Medicine, in particular, could be supported by a state-of-the-art health system managed by EDC companies that leverage their expertise to the local population while conducting services for their clients outside of the Territory. Consideration may also be given to the privatization of healthcare and other essential services across the Territory, albeit with adequate government oversight and regulation.

These facilities may also help attract talented students, faculty, and expert professionals to the Territory. EDC companies may also expand the scope of USVI economic development enterprise, leading to a greater influx of federal and private funding to the Territory and expanding opportunities for the development of new businesses based on the needs of these clients.

Marine and maritime based businesses may also significantly add to the prospects of an improved economy. The natural beauty and pristine waters of the region which combine to give the Territory the ideal location for a sailor's paradise could be strategically expanded to create a plethora of additional marine and maritime related business opportunities. Consideration should be given to improved relations and cooperation with the British Virgin Islands to offer a marine and maritime destination that is second to none in the world.

Catalyst for Economic Development

USVIEDA may also consider taking a leading role in working collaboratively with energy and telecommunication providers, relevant government departments and agencies, the private sector, the University, and the Office of the Governor to ensure that the requisite infrastructure, human resources, and legislation are in place to better support and sustain the economy of the USVI. The opportunity brought to the USVI to create a path for sustainability in the aftermath of the storms should not go unheeded.

Impact if the USVIEDC Program did not exist for a Similar Three-Year Period

Business incentives offered by the Virgin Islands Economic Development Commission (VIEDC) have a significant impact on the economy of the U.S. Virgin Islands. Using data compiled by the Commission on the number of people employed and wages and salaries paid by USVI companies that benefited from these incentives, their purchases of goods and services from USVI-based suppliers and their capital spending from 2013 through 2015, Appleseed estimates that during this period the companies directly and indirectly accounted for an annual average of the following:

- 6,437 jobs in the U.S. Virgin Islands;
- \$339.0 million in wages and salaries; and
- \$493.7 million in territory-wide economic output

Table VIII-1: Average annual direct, indirect, and induced impacts of VIEDC beneficiaries' operations in the U.S. Virgin Islands, 2013-2015 (wages and output in \$000s of 2015 dollars)

| | Jobs | Wages | Output |
|---|--------------|--------------------|--------------------|
| Direct spending impact | | | |
| Payroll | 3,566 | \$156,288.3 | \$156,288.3 |
| Purchasing/capital expenditures | 1,762 | \$125,216.4 | \$202,245.9 |
| <i>Subtotal, direct impact</i> | <i>5,328</i> | <i>\$281,504.7</i> | <i>\$358,534.2</i> |
| Indirect and induced effects | | | |
| Supplier spending | 576 | 30,903.9 | 70,578.5 |
| <i>Subtotal, indirect/induced effects</i> | <i>1,109</i> | <i>\$57,499.2</i> | <i>\$135,121.3</i> |
| Total | 6,437 | \$339,003.7 | \$493,655.5 |

Moreover, because this analysis is based only on the impact of companies for which employment and spending data were available, the results shown in Table 1 probably understate to some extent the collective economic impact of VIEDC's beneficiaries. For 2014, for example, information was not available for 9 of the Commission's 78 beneficiary companies; and for 2015, no information was available for 13 of the Commission's 77 beneficiaries. If data for all participating companies were available, the totals for jobs, earnings and output shown in Table 1 would be higher.

The total jobs, wages and output cited in Table 1 represent a substantial portion of overall economic activity in the U.S. Virgin Islands. Using data published by the U.S. Bureau of Labor Statistics and the IMPLAN input-output modeling system, Appleseed estimates that in 2015 VIEDC beneficiaries directly and indirectly accounted for the following:

- 17.0 percent of all employment in the U.S. Virgin Islands;
- 17.6 percent of all wages and salaries paid in the Territory; and
- 10.7 percent of the Territory's total economic output.

What would it have meant if the Territory had not been able to attract, develop or retain the economic value that these companies represent? We cannot say definitively how much of this activity would have been lost in the absence of the Commission's incentives. Nevertheless, the loss of even half of the economic activity attributable to VIEDC beneficiary companies would represent a major loss to the Territory's economy – comparable in scale to the losses suffered in the months after Hurricanes Irma and Maria.

Stronger Community

The value of the EDC Program to the Territory of the United States Virgin Islands is clear. Approximately \$1.5B in direct, indirect, and induced impact on the USVI over three years is significant for our size. Overall, the USVI will continue to benefit from the EDC Program to strengthen the communities and improve the quality of life for residents and visitors alike.

Whether it is improving remuneration levels, increasing educational and learning opportunities, enhancing the capacity of agencies to address the social challenges, increasing income tax contributions, or enhancing the preservation of culture and heritage – the EDC Program is there. For these and other reasons, the USVIEDA EDC Program is likely to continue to play a central role in sustaining the economy of the Territory. The program is likely to help the USVI overcome the economic setbacks it has suffered over the years and return the Territory to a path of sustained economic growth.

Page Intentionally Left Blank