

**V.I. Economic Development Authority
Testimony to the Committee on Finance
Fiscal Year 2017 Budget Hearing
31st Legislature of the Virgin Islands
July 28, 2016
2:00 pm**

Introduction

Good afternoon, Chairman Graham, members of the Committee on Finance, other members of the 31st Legislature present, the U.S. Virgin Islands Economic Development Authority Team, ladies and gentlemen in the Chamber, and the viewing and listening audience. I am Wayne Biggs, Jr., Acting Chief Executive Officer of the U.S. Virgin Islands Economic Development Authority (“the Authority”). With me today is Maritza Hernandez, Acting Director of Administration and Finance. Other members of the Authority’s management staff, Sharmane Brookes, Director of Lending; Margarita Greenidge-Benjamin, Director of Applications; Claude Gerard, Director of Compliance; Nadine Marchena Kean, Director of the Enterprise Zone Commission; Mark Finch, Industrial Park Superintendent; Steven Steele, Client Care Coordinator; Wendy Wheeler, Human Resources Manager; Cusa Holloway, Incubator Program Manager; and Kelly Thompson-Webbe, Budget and Financial Analyst, are present in the Chamber and are available to respond to inquiries.

The VIEDA Organizational Structure

The Authority is an umbrella entity created to assume, integrate, and unify the functions of the Economic Development Bank, the Economic Development Commission, the Enterprise Zone Commission, and the Economic Development Park Corporation. The Authority is governed under one executive board to achieve maximum efficiency of operations, avoid duplication of services, reduce cost of operations, and implement comprehensive programs for the economic development of the Territory. The entities maintain distinct identities and function independently of one another, only to the extent necessary to execute their specific mandates, but in all other cases operate in an integrated fashion.

The FY 2017 Budget Request

We are glad for the opportunity to be here today to share what we have accomplished to date for Fiscal Year (FY) 2016 and to support our budget request for FY 2017. The Authority's FY 2017 General Fund budget request is \$4,998,515 which represents an increase of \$198,515 or 4% over the amount appropriated in FY 2016. This spending increase reflects a commitment to improve services above and beyond the mark that has become the norm in previous years. This budget, therefore, is a practical, targeted and responsible economic plan that compels us to think differently, and to challenge ourselves in providing higher levels of service that leads to a growing private sector with high quality jobs for our residents, and a stronger, more diversified economy by attracting investment to the Territory and investing in our local small businesses. This renewed hope, exuberance, and confidence forms the catalyst to help spur an economic revolution for these islands.

FY 2016 Accomplishments To-Date

Given the progress made in the first nine (9) months of this fiscal year, the Authority is slated to end the year on a high note. Allow me to take this opportunity to highlight some of our major accomplishments:

Financial Reporting and Accountability

Our FY 2015 audited financial statements have been issued and we continue to receive the highest ratings in financial reporting by our external auditors. For FY 2015, the Authority received its sixth consecutive unqualified audit opinion. This demonstrates the integrity with which the Authority conducts its financial responsibilities and provides for continued partnerships with federal grantor agencies and other financial institutions. Whereas, the aim of a for-profit organization is to increase its net worth through the generation of profits, the aim of government agencies, to include ours, is to continuously provide improved services. This is achieved through careful analyses of data and, most importantly, incorporating the needs of our constituents through careful reviews of their needs and concerns.

Economic Development Bank (EDB)

The main focus of the Economic Development Bank (EDB) is to provide loans and offer technical and managerial assistance to small and medium-sized local businesses to enhance employment opportunities and economic growth.

Loan Transactions

As of June 30th, loan transactions, including those currently under review, have increased by 25% over FY 2015. These loan transactions totaling \$2,192,612 to date have the potential to retain 53 current jobs and create an additional 48 new ones.

Loan Payments

In FY 2015, loan payments totaled \$872,406. Thus far in FY 2016, EDB has received loan payments totaling \$799,638. The FY 2016 payment trajectory is anticipated to show a 4.84% increase or \$42,233 over FY 2015. The improvement in collections is due to increased collection efforts and utilizing innovative methods, such as loan restructuring, loan modifications, and loan deferments to make it easier for borrowers to meet their loan obligations and at the same time help to reduce the delinquency rate.

Loan Delinquencies

The delinquency rate is 63.5%. New loans, restructures and reclassifications in the pipeline are calculated to reduce this current delinquency level to approximately 56%, which remains stable when compared to the FY 2015 delinquency level. The EDB continues to aggressively collect on delinquent loans by all means necessary, with the strong support of external legal counsel and collection agencies.

State Small Business Credit Initiative (SSBCI) Funding

We have requested \$4,477,239 from the U.S. Department of Treasury, the final tranche of the \$13,168,350 State Small Business Credit Initiative (SSBCI) grant. This funding provides local banks with

the guaranteed support to offer loans to their clients. The EDB along with the local banks have made a significant impact in the local economy.

To date, 36 businesses obtained bank loans through the SSBCI program. The total SSBCI support of these loans was \$10,464,492 and the total bank loans supported by SSBCI guarantees were \$24,355,684. These loans and loan guarantees have the potential to retain approximately 444 jobs and create an additional 198 new jobs in the local economy – jobs that represent a broad cross-sector of industry types, and the core of the U.S. Virgin Islands economy, to include, health, tourism, hospitality, construction, and retail.

Incubator Program

The Incubator Program was borne out of a \$1M grant from the U.S. Department of Commerce, Economic Development Administration, matched with \$200K from the Authority's operating budget. The grant funds expired in January of this year, and currently the Incubator Program remains unfunded.

We all agree that the program has contributed to the economic success of St. Croix. So far, the Incubator Program has provided valuable assistance to 14 entrepreneurs, retaining and creating approximately 66 jobs on the island.

During this year, three (3) of the Incubator Program participants received nominations for awards from the St. Croix Chamber of Commerce. Two (2) of these participants won awards in their respective categories. In addition, the Incubator Program participated in the Community Education Initiative for high school students and is seeking federal funding so that it can continue to serve as an informal business university mentoring entrepreneurs through the process of starting a business from infancy or growing an existing business.

Economic Development Commission (EDC)

The Economic Development Commission (EDC) is charged with the promotion, growth, development and diversification of the Territory's economy. The EDC's objective focuses on the development of the human and economic resources in order to create and/or preserve quality jobs for

its citizens and to expand the local tax base. Ten (10) companies activated their EDC Certificates during this period, which had an immediate impact on the economy. Collectively, these businesses will invest approximately \$27.6M over a five-year span, add or maintain approximately 709 full-time jobs, pay wages and incur other payroll costs of approximately \$45.3M, make in excess of \$786K in charitable contributions, and add an estimated \$45M to the tax base.

The EDC consists of two (2) related functions – the Applications Unit, which is the first point of contact for businesses seeking economic development tax incentives, and the Compliance Unit, which is responsible for monitoring EDC clients to ensure that they comply with the terms and conditions of the agreements and other requirements of law.

EDC Applications Unit

The EDC Applications Unit received 12 applications (4 new, 5 extensions, 2 modifications, and 1 transfer) for economic development benefits through June 2016. Of these, the four (4) new applicants will provide business and management consulting services, ambulatory surgical center/medical tourism and air ambulance services. If these prospective companies are approved to receive economic development incentives, it is projected that they will expend more than \$3.3M in capital investments, create 63 new jobs, pay approximately \$3M in wages, contribute an estimated \$600K in direct payments to the local tax base, and the Territory will indirectly receive approximately \$1.5M in tax revenues.

During this same period, 16 applicants were presented to the EDC Governing Board for consideration of which 14 applications were approved with a favorable recommendation to the Governor and two (2) applications were denied.

We are currently developing an online application system that will assist in streamlining the application process.

EDC Eligible Supplier Program

A total of nine (9) VI suppliers were approved from October 1, 2015 to June 30, 2016 bringing the total number of eligible suppliers in the Territory to 394 – 150 in the St. Croix District and 244 in the St. Thomas/St. John District.

As part of the ongoing initiative to promote local purchases and to provide the opportunity for U.S. Virgin Islands suppliers to participate in the procurement activities of EDC clients, the Authority hosted Open Houses on St. Thomas and St. Croix for current certified VI Suppliers as well as for VI providers of goods and services interested in becoming certified.

EDC Compliance Unit

One of the fundamental responsibilities of the EDC Compliance Unit is to monitor companies receiving EDC incentives to ensure that these companies are in compliance with their agreements. In addition, this Unit enhances and maintains partnerships with EDC clients in promoting the program to other potential applicants.

As part of its activities during this year, the Unit has completed 15 compliance reviews and presented 17 petitions or requests to the EDC Board for its action. These petitions involve matters regarding non-compliance, terminations, extensions, waiver requests, and administrative closures.

In order to better improve its operations, the Unit has completed a first draft of a Compliance Handbook that is being reviewed and will serve as an educational tool to assist beneficiaries in meeting their obligations to the program. Additionally, the Unit is currently developing an electronic database system whereby all EDC beneficiaries' files will be securely stored and accessible to EDC staff.

Enterprise Zone Commission (EZC)

The Enterprise Zone Commission (EZC) was created to revitalize designated distressed areas in the Territory that were once socially and economically vibrant communities. To achieve this important mandate, the EZC provides support and guidance by offering tax incentives and assists in reducing and

eliminating fiscal and regulatory barriers to economic growth and development. Through the tax credit program, owners of properties are encouraged to renovate and rehabilitate structures in the zones to increase business and residential activities.

As part of its activities during the fiscal year, the EZC approved the Christiansted, Frederiksted, and Garden Street & Upstreet Town/Community Plans which were driven by overwhelming community involvement and created by members of the American Institute of Architects. These socio-economic community plans were meant to be the community development layer, over plans such as the Frederiksted town plans and the Charlotte Amalie Blueprint. The approval of these plans has generated much interest and discussions in the community as we have received many inquiries in regards to what areas or types of business activity are eligible under the new tax exemption program that became effective in March 2016.

Last year with the help of summer interns from the Department of Labor's Summer Youth Employment Program, we were able to survey over 950 properties in the Frederiksted and Savanne Zones. This year we hope to do the same in Christiansted and Garden Street & Upstreet Zones.

The EZC has successfully sought program funds through grants from the Department of Planning and Natural Resources' State Historic Preservation Office. Additionally, Act 7651, has made it possible for the EZC to receive funding from EDC companies for rehabilitation purposes that include boarding, scraping, painting, and rejuvenating of buildings in the zones.

For the last eight (8) years, the EZC in collaboration with the private sector, has offered free Estate Planning Conferences in both districts specifically geared to residents with property located in the designated zones. This year's conferences had over 185 persons attending.

Last year on the request of several buyers interested in the "Made in the VI" products, the EZC hosted a Business-to-Business event, where buyers and sellers were matched. This event will be hosted again next month.

We are currently administering a new program, EntrepreNow, in collaboration with the VI Public Defender's Office and Youth Arise, a non-profit organization. The program works with young men ages

15-19 and assists them with understanding the elements of starting their own businesses. Toward this end, we have received free support from Leroy Smith, In Search Of Transportation Services, ABC Cleaners, Omnisystems, Diamond Barrel Restaurant, Buddha Sushi, and a myriad of guest speakers.

With the approval of four (4) new applications for tax credits in FY 2016 and a projected total output of \$3.85M in direct, indirect and induced expenditure to the Territory, the EZC continues to help to spur an economic revolution in the community despite limited resources.

Economic Development Park Corporation (EDPC)

There are two industrial parks managed by the Economic Development Park Corporation (EDPC) – one on St. Thomas located above the motor pool in Subbase and the other is the William D. Roebuck Industrial Park, centrally located in Estate Negro Bay on St. Croix. The EDPC does not receive any funding from government appropriations. It is self-supported by revenues generated from its tenants.

On the island of St. Thomas, 75% of the 20,000 square foot facility is currently occupied while on St. Croix 50% of the facility's 158,160 total square footage is occupied. The EDPC has been very aggressive in the marketing of its facilities, and with commitments from one (1) potential tenant on St. Thomas and one (1) on St. Croix, we expect that the occupancy level at these facilities will dramatically increase.

Marketing and Public Relations

The role of Marketing/Public Relations is to position, promote, and communicate the benefits of the Authority's programs. This is accomplished through promotion of the U.S. Virgin Islands to potential investors and/or advisors, and promotion of the Authority's programs locally that are all structured to support economic growth in the Territory.

Our marketing initiatives continue to focus on four (4) key areas:

1. Investment Lead Generation & Development

Investment attraction to the Virgin Islands is a primary marketing activity of the Authority and is accomplished through a disciplined sector/company targeting approach. The approach involves an investment in detailed research to identify the right companies that have the appropriate structure to locate in the U.S. Virgin Islands. Key milestones over the first nine (9) months of the fiscal year are:

- 1,323 companies contacted and qualified in the following key target sectors: financial services, IT/eCommerce, Back-Office Processing, High-Value Manufacturing, Hotels/Resorts, and Maritime;
- 45 pipeline projects are being qualified and developed by Marketing;
- 24 hot projects with active interaction; and
- 18 EDC company site visits hosted by the Authority on St Croix and St Thomas.

2. Marketing Events

The Authority organizes and attends a number of industry events and conferences during the year to showcase the Territory and recruit investment through panel presentations and sponsorship, and to meet directly with investors and influencers at these events. Events that have occurred this year along with our VI partners are:

- International Economic Development Council – Anchorage, AK – October 2015 – Partner: VI Senate;
- Shared Services Planning & Launching – Glasgow, United Kingdom - October 2015;
- The Institute for Professionals in Taxation Credit and Incentives Symposium - Austin, Texas, November 2015 – Partner: VI Bureau of Internal Revenue
- Caribbean Travel Marketplace – Nassau, Bahamas – January 2016 – Partner: Department of Tourism;
- USVIEDA Congressional Outreach Delegation Mission – Washington, DC – February 2016;
- Puerto Rico Investment Summit – San Juan, PR – February 2016;

- Shared Services Week – Orlando, FL – March 2016 – Ambassador: International Capital Management Company;
- South by South West (SXSW) Festival – Austin, TX – March 2016 - Partner: Department of Tourism;
- World Forum for Foreign Direct Investment– San Diego, CA – April 2016 - Partner: VI Senate;
- Hannover Fair – Hannover, Germany – April 2016 – Partner: UVI RT Park;
- SelectUSA Summit – Washington, DC – June 2016; and
- Governor’s Mission – China – May/June 2016.

3. Marketing Communications

Communications continue to be a focus of the Authority to advance and manage hundreds of company and advisor relationships for potential investment into the Territory. The Authority has employed the following strategies during this fiscal year:

- Initiated a revision of the existing web site with a hard launch by August 2016;
- Developed new advertising and promotional materials for key international events and media;
- Placed advertisements at key events such as the World Forum for Foreign Direct Investment and Hannover Messe;
- Implemented the Marketing Customer Relationship Management System (CRM) for client record keeping and reporting, which has grown to over 375 key contacts at various stages of development. The system allows for the efficient management of key investment contacts, and tracks every contact from introduction to approval;
- Continues the EDC Ambassadors’ Program to develop and to be a source for new investment opportunities through local meetings and in participation in conferences such as Shared Services Week; and
- Recently launch USVIEDA Social Media Campaign on Twitter (https://twitter.com/USVI_EDA) and our Facebook page is currently being developed.

4. Local Marketing and Public Relation Initiatives

Local marketing and public relation initiatives focus on 1) promoting our programs and services in the U.S. Virgin Islands, and 2) establishing and solidifying relationships within the local community through partnerships, outreach activities and the dissemination of information about the Authority. Twenty-four (24) positive news articles were generated as a result of the USVIEDA's public relations initiatives.

The Authority and its entities hosted several events to inform the local community about our programs and services. Events and activities that were held during the period of October 1, 2015 to June 30, 2016 are:

- USVIEDA Informational Session with the 31st Legislature of the Virgin Islands – William D. Roebuck Industrial Park - St. Croix, U.S. Virgin Islands – October 2015;
- Eligible VI Suppliers Open House hosted by the EDC – St. Thomas and St. Croix, U.S. Virgin Islands – October 2015;
- 2016 Community Education Initiative hosted by the EDC at the Ivanna Eudora Kean High School and Charlotte Amalie High School on St. Thomas; and the St. Croix Central High School on St. Croix – April 2016;
- USVIEDA Open House hosted by the EZC at E's Garden Teahouse and Things – April 2016;
- Orientation and Information Sharing Session hosted by the EDB with USVIEDA, SBDC, and SBDA Staff – April 2016;
- Enterprise Zone Commission Community Open House held in collaboration with U.S. Virgin Islands Senator Myron D. Jackson and community members of Upstreet on St. Thomas – April 2016;
- Virgin Islands Small Business Week activities hosted by the Virgin Islands Small Business Development Center (VISBDC) with workshops on loan programs offered by the EDB for small businesses – June 2016; and
- Radio Program "USVIEDA: Focus on the Marketplace".

The radio program, broadcast every Tuesday from 6:00 p.m. – 7:00 p.m. on WSTA 1340AM, provides information on our programs and internal and external activities in collaboration with our economic development partners, as well as, local and federal agencies. This program also highlights

clients and businesses that receive assistance from the Authority, and includes the feature announcement “Why Didn’t I Think of That” which informs the general public about the innovative minds that pursued patents for new inventions.

Fiscal Year 2017 Budget Priorities

The Authority recognizes the importance of nurturing new ideas and initiatives that will encourage investment, improve the employment outlook, and promote a spirit of entrepreneurship in the U.S. Virgin Islands.

With the level of funding requested for FY 2017, we will be in position to execute the following goals that will all serve as catalysts to building a better tomorrow. Our FY 2017 priorities include, but are not limited to:

1. Engaging in an aggressive marketing campaign to attract more investors to the Territory. It is critical to note that we operate in a highly competitive global market and we must be prepared to utilize all available avenues to inform potential investors that the Territory is a viable option for business development. Promotional opportunities include but are not limited to participating in domestic and international marketing missions, hosting investment forums, and advertising in regional, national, and international publications (i.e., both print and online);
2. Strengthening our lending arm to increase the number of loans awarded to local small businesses and entrepreneurs;
3. Attracting film and music projects in the entertainment industry through the Sustainable Tourism Through Arts-Based Revenue Streams Act (STARS Act);
4. Stimulating more activity in the hospitality sector through the Hotel Development Act;
5. Securing funds to complete the first phase of the energy retrofitting project at the EDPC facilities;

6. Completing an investment grade audit of the William D. Roebuck Industrial Park to serve as an initial basis for installing a fully developed micro-grid that has the capability of automatically disconnecting and operating independently from the main WAPA grid. This will lower the operating cost of high-value manufacturers in the Territory, which will ultimately improve competitiveness, and attract more investment for growth and employment opportunities to the Territory. We are thrilled and honored that the William D. Roebuck Industrial Development Park, Energy Efficiency and Micro-Grid Infrastructure Assessment will be the key case study presented at the bi-annual 2016 American Council for an Energy-Efficient Economy (ACEEE) Summer Study on Energy Efficiency in Buildings in August 2016. This is a diverse group of professionals from around the world that will gather at this pre-eminent meeting to discuss the technological basis for, and practical implementation of, actions to reduce energy use and the climate impacts associated with buildings.
7. Seeking funds for the Incubator Program to assist more residents with turning their dreams of entrepreneurship into a reality, as the number of its success stories stand as evidence of the program's effectiveness. Historically, our consultants have executed almost 3000 hours of direct/indirect assistance to our incubator clients and the community. Over the last two (2) years, the Incubator Program has been able to assist over 250 entrepreneurs ranging in ages from 12 to over 70 years old through the various workshops and seminars. In July 2015, we held the first Young CEO Camp, a weeklong seminar where at least 85 students participated in classroom sessions and webinars. If the Incubator Program continues in the Territory, the potential to assist additional persons would only have a very positive impact on our small business community;
8. Developing a tailor-made compliance regime for the EDC's Compliance Unit. This would enable the Compliance Unit to operate in accordance with specific policies, resulting in a clear path of operational standards for both clients and compliance officers;
9. Obtaining funds for the "Save a Building" program to complete rehabilitation of key buildings in the historic districts as part of the Centennial celebration prior to Transfer Day on March 31, 2017. This program was created by the EZC in collaboration with our stakeholders: Our Town Frederiksted, St. Croix Foundation, the Christiansted Community Alliance, We From Upstreet,

the Garden Street-Long Path Association, Community Action Now, and the Downstreet People, Inc., and is a solution to the multiple ownership quagmire that we find ourselves in;

10. Updating the Cost Benefit Analysis model to improve forecasting of the economic impact of prospective EDC clients on the Territory; and
11. Commissioning an EDC economic impact analysis study to determine the impact the EDC program has in the Territory.

CONCLUSION

If approved, the FY 2017 budget request of \$4,998,515 will enable us to positively impact the lives of U.S. Virgin Islands' residents, by facilitating investments in job creation and fostering economic growth to enhance the quality of life in the Territory. Operationally, the Authority will provide an even higher level of service to our clients and stakeholders. New technology will be used to make it more convenient for our customers to meet their obligations to our agency. We will improve our competitiveness by shortening the application processing time so our Governing Board can make sound decisions in a timelier manner. Additionally in FY 2017, the Authority will have a larger online and social media presence to keep current and prospective investors abreast of upcoming activities, services, and policies. In order for this revolution to be successful, an era of radical solutions and a new way of conducting business must be ushered in to facilitate a transformation. I am both excited and optimistic that our efforts will build a better future for the Territory. However, this can only be achieved with adequate funding and resources for all divisions within the Authority.

I would like to take this opportunity to thank my staff for all their hard work and dedication. Their commitment to delivering the best possible service has led to the Authority being voted the "Best Government Agency" in the Virgin Islands Daily News Readers Poll – Best of the VI 2016 in both the St. Croix District and the St. Thomas/St. John District for the second consecutive year. I also want to thank the USVIEDA Governing Board for their continued support and guidance, Governor Kenneth E. Mapp, Lieutenant Governor Osbert E. Potter, and their team for their support and this body for your interest and the support you have given us.

We are available to answer any questions you may have.

Thank you.