

PRESENTATION BY

**PERCIVAL E. CLOUDEN
CHIEF EXECUTIVE OFFICER**

VIRGIN ISLANDS ECONOMIC DEVELOPMENT AUTHORITY



**FY 2013 BUDGET HEARING
COMMITTEE ON FINANCE
29th LEGISLATURE OF THE VIRGIN ISLANDS
EARLE B. OTTLEY LEGISLATIVE CHAMBERS
ST. THOMAS, U.S. VIRGIN ISLANDS
FRIDAY, AUGUST 17, 2012
9:00 A.M.**

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TESTIMONY BY PERCIVAL CLOUDEN
FISCAL YEAR 2013 BUDGET HEARING
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Good morning, Chairman Carlton Dowe, members of the Committee on Finance, other members of the 29th Legislature present, fellow testifiers, ladies and gentlemen gathered here, and the viewing and listening public. My name is Percival E. Clouden, Chief Executive Officer of the Virgin Islands Economic Development Authority (“the Authority”). Joining me today are Ms. Jennifer Nugent-Hill, Assistant Chief Executive Officer and Chief Operating Officer and Mr. Ernest Halliday, Director of Administration and Finance. Other members of the Authority’s management staff are present in the Chamber and are available to respond to inquiries.

The Virgin Islands Economic Development Authority is comprised of five (5) divisions, namely: the Economic Development Commission (EDC), the Government Development Bank (GDB), the Small Business Development Agency (SBDA), the Enterprise Zone Commission, and the Industrial Park Development Corporation (IPDC).

These divisions work together in performing the multiple functions of diversifying and expanding our economy and maintaining and creating jobs in our community. We have managed to do this by matching the talents of our staff with limited financial resources in order to maximize output. I am pleased to highlight in brief some of the Authority’s accomplishments during the first three quarters of the current fiscal year (from October 1, 2011 –June 30, 2012). These include the following:

1. Successfully applied for and was awarded a \$13.1 million State Small Business Credit Initiative (SSBCI) grant which has already resulted in several businesses receiving gap financing in partnership with the local banks
2. Expanded existing and established new Enterprise Zones and began program activities with stakeholders within these Zones
3. Continued to streamline the EDC application process in order meet the goal of a 90-day processing period and enhanced the cost benefit model to account for the impact of capital investments in the Territory
4. Conducted the EDC Annual Compliance Conference for EDC beneficiaries
5. Created an operating foundation for the Incubator Program at the William D. Roebuck Industrial Park on St. Croix

6. Developed and implemented the “Virgin Islands Economic Development Authority’s (VIEDA’s) Focus on the Virgin Islands Marketplace” weekly television series, which is being aired on the Government Access Channel
7. Conducted “Boots on the Ground” local, educational and promotional activities in conjunction with developing and conducting a target marketing approach for potential EDC applicants
8. Made marketing presentations at various summits and conferences
9. Began a very aggressive collection program by filing a substantial number of court actions against delinquent loans carried by the Government Development Bank (GDB) and Small Business Development Agency (SBDA)
10. Completed the FY 2011 financial audit, making it the second consecutive year the Authority has received an “unqualified opinion”, the best possible audit opinion from its external auditors
11. Implemented an electronic time and attendance system
12. Successfully applied for and was awarded a State Trade and Export Promotion (STEP) grant in the amount of \$489,646 to assist local businesses to increase exports
13. Translated EDA website into thirty-two (32) of the most commonly used languages in an effort to compete globally

For Fiscal Year 2013, the Virgin Islands Economic Development Authority (VIEDA) is requesting a general fund budget of \$4,567,000. This is 8.9% less than the level appropriated in Fiscal Year 2012. We continue to face a multitude of challenges which require extraordinary measures, but our priorities are in order and we will make the best use of both our financial and human resources.

I am grateful to my team who is committed to reducing costs and improving operational efficiencies. This budget incorporates some of those recommendations, many of which have been implemented during Fiscal Year 2012.

They include:

- Streamlining and centralizing the internal procurement procedures and practices, resulting in a 25% reduction in the cost of operational materials and supplies.
- Centralizing and consolidating local advertisements to reduce advertising costs by approximately 20%.
- Eliminating 60% of cell phones.
- Installing a Video Conference System which is expected to reduce inter-island travel costs by approximately 30 %.
- Reducing utility costs (water and electricity) by 25%

As we continue to search for ways to accomplish our mandate, the budget focuses resources where they are most needed and where they will yield the maximum benefits.

Our goals for this budget are to:

- (a) Promote economic development programs that provide for employment and economic stability;
- (b) Support and strengthen new and existing businesses that provide employment for our residents;
and
- (c) Encourage the development of entrepreneurial activities through a series of support and service initiatives.

Business attraction must be an important facet of the Territory's economic development efforts, and it has never been more challenging – it is the world against the US Virgin Islands. Thousands of jurisdictions, each competing for investments are all chasing a smaller and more demanding universe of companies.

Case in point, the Legislative Assembly of Puerto Rico approved new legislation to promote the economic development of that island. We have done an analysis of the benefits currently being offered by Puerto Rico as part of that commonwealth's initiative to attract high net worth individuals, and we are now assessing the impact of Puerto Rico's new tax incentives on our EDC Program. To add further emphasis on the value of our EDC's program, I must tell you that the Virgin Island's economy could be affected by the rising threat of other Caribbean nations, including CARICOM members and the Dominican Republic's threat to file a complaint with the World Trade Organization (WTO) against our efforts for our economic growth.

Program Descriptions and Accomplishments

Though the road is rough and the work is heavy, each of the VIEDA's divisions has continued to perform to its fullest potential. I wish to share with you a few accomplishments of each division during the first three quarters of this fiscal year:

Applications Unit

The Applications Unit is charged with processing applications for Economic Development Program benefits and is doing so within a 120-day timeline. Currently there are 84 active companies in the EDC Program. During the first nine (9) months of this fiscal year, the EDC received a total of eighteen (18) applications, representing a 20% increase over the same period in FY 2011. Of the eighteen (18) applications received, fifteen (15) or 83% were new applications, while two (2) were for extensions and one (1) was for transfer of tax benefits. The fifteen (15) new and two (2) extension applications represent a projected annual payroll of \$14,506,513; investments of approximately \$36,301,884; and approximately 223 new jobs for the Territory.

Compliance Unit

The main function of the Compliance Unit is to ensure the integrity of the Economic Development Program and to assist beneficiaries in meeting the requirements of their EDC certificates. During this fiscal year, we have begun discussions and met with consultants regarding the development of an electronic case management system. Additionally, work has begun on the development of an on-line reporting system. With these tools, the Compliance Unit will be better able to manage the workflow by tracking, monitoring and following up on various tasks, and receiving real-time reporting by EDC Beneficiaries and staff, resulting in less paperwork and facilitating staff analysis of data.

The Compliance Unit also administers the Eligible Virgin Islands Suppliers Program, whereby qualified local businesses are certified by the Authority's Chief Executive Officer to provide goods and services to EDC beneficiary companies. As of June 30, 2012, fifteen (15) new applications were approved bringing the total to 304 Eligible Virgin Islands suppliers.

Lending Division

The Lending Division, comprised of the GDB and the SBDA, provides access to capital for small and medium-sized businesses in the Territory. This division manages nine (9) programs that include: the Intermediary Revolving Program (IRP), the Micro Loan Program, PFA Economic Development Fund, Economic Development Loan Program 3801 and the Economic Development Administration Loan Program 3004.

During the first nine months of Fiscal Year 2012, over \$1.0 million in loans were approved. These loans were immediately injected into the local economy, resulting in the creation of twenty-five (25) new jobs and the saving of eighty-four (84) jobs, excluding jobs that were made possible under the Performance Bonding Program.

The Authority was recently selected to administer the State Small Business Credit Initiative Program (SSBCI). The SSBCI program is an initiative undertaken by the Obama Administration to spur the creation and retention of jobs. Under this initiative the Government of the Virgin Islands was awarded \$13.1 million by the US Department of Treasury to provide Collateral, Loan Guarantee and Payment, Surety and Performance Bond enhancements to participating banks and qualified insurance companies that provide bonding. As a result of this partnership, six (6) small businesses were able to close on loans with SSBCI support in the amount of \$1.2 Million.

The Lending Unit continues to serve as the loan processing and customer account maintenance agent for the Virgin Islands Solar Energy Program. Through the collaboration of three agencies (the Water and Power Authority, the Energy Office and the VIEDA), the program creates jobs and spurs economic growth. As of June 30, 2012, a total of 673 in combined loans and rebates, valued at \$3,188,439, were approved and disbursed.

Our efforts to collect on outstanding loans are showing mixed results. Our 90-day amnesty program was not as successful as we had anticipated, due to the economic conditions. Collection activities by two (2) independent collection agencies have been steady, which means more funds are being made available to lend, and our legal division continues its aggressive action against delinquent borrowers by filing a number of "Actions for Debt" through the court system.

Enterprise Zone Commission

Our historic towns and neighborhoods are the face of the Virgin Islands from the perspective of both tourists and investors. It is our home, and we are all in agreement that it needs to be revitalized. The Enterprise Zone Program creates jobs and provides for the growth of the Territory's economy. The Enterprise Zone Commission, which administers the Enterprise Zone Program, is responsible for revitalizing the severely distressed areas of Christiansted, Frederiksted, Savanne & Downstreet and Garden Street & Upstreet. In order to be successful, the issues must be tackled at different levels and from different perspectives.

The Enterprise Zone Commission continues to work with stakeholders and constituents to revitalize these areas. We have continued to administer small grants, which are used to accomplish programs like Scrape, Paint & Rejuvenate, Board-up, Youth to Work and the Historic Walk/Streetscape programs. We have almost completed the Frederiksted town plan, which we anticipate will spur the community in a positive way economically. We have also scheduled the planning process for Christiansted and Savanne.

Due to the expansion of the zones and the amendments of the law governing the Enterprise Zone Commission, I am pleased to report that this year the proposed investments by new applicants increased by 358% over Fiscal Year 2011. We have completed over 68% of the compliance reports of the Enterprise Zone Commission's beneficiaries with no non-compliance issues. We have also scheduled our extremely successful Estate Planning Conferences, which begin to address the issue of multiple-ownership of buildings within the zones. This division continues to be performance based and results driven.

Industrial Park Development Corporation

An independent entity under the Authority, the Industrial Park Development Corporation (IPDC) works closely with the EDC to lease commercial space to interested businesses.

As you are aware, the Industrial Park Development Corporation is self-supporting, as it receives no funding from the central government. Approximately 10,000 square feet of park space on the island of St. Thomas and 68,830 square feet of park space on the island of St. Croix are currently occupied.

The IPDC has been very aggressive in the marketing of its facilities. There has been increased interest by businesses, both small and large. The most recent tenant is United Electronic Industries Services, LLC. This is a manufacturing and assembly business that utilizes 5,000 sq. ft. of the Virgin Islands Park on St. Thomas. This tenant manufactures and tests electronic assemblies tailored to the automotive, aerospace, military, medical and semiconductor industries. Additionally, this tenant operates a sales, marketing, support and product servicing component of its operations on St. Thomas.

The Authority is anticipating a substantial increase in the occupancy rate within its two (2) industrial parks within the next few months as a result of the marketing initiatives and the confidence placed in our EDC Program by businesses wishing to locate to the Virgin Islands.

Marketing Unit

The VIEDA recognizes that a successful and effective economic development marketing strategy will require a collaborative approach with several entities to include the following:

- Bureau of Economic Research
- Department of Labor
- Department of Tourism
- University of the Virgin Islands
- Virgin Islands Next Generation Network
- Virgin Islands Port Authority

One of the Authority's targeted marketing objectives is to facilitate the expansion opportunities of new businesses to the Territory, which will focus on companies that have the ability to help stimulate local economic development in the immediate and intermediate near terms. It is our strategy under the EDC Program to focus on entities using the following approaches:

- Already established companies with immediate capital to invest in the Territory and create a minimum of 10 jobs.
- Businesses that help strengthen the local economy, as well as existing industry sectors already established in the Territory that provide additional knowledge and commerce.
- Businesses that diversify the economy away from an "eggs in one basket" approach.
- Businesses that have permanency in their existence – "bricks and mortar".
- Businesses that have the ability to thrive in the Territory and grow, creating more jobs over time.
- Businesses that actively use the local supply chain, adding to the economic flow within the Territory.
- Businesses that contribute to the welfare of the community through employment, social involvement, community and government initiatives, philanthropy, and the like.

The internal marketing focus of the VIEDA is to promote the following programs to encourage more local residents into becoming entrepreneurs, as well as to assist local small businesses with expansion and retention plans:

- Loan programs under the GDB and SBDA.
- Tax exemption incentives, which are available to local small businesses through the EDC's Small Business Program.
- Economic development tools, such as the Tax Increment Financing (TIF) and New Market Tax Credits (NMTC).

FY 2013 Request for Funding

The reduced funding request for Fiscal Year 2013 does not mean diminished services; it demands the careful allocation of scarce resources. It provides the unique opportunity to assess our priorities and find ways to do things better. We will accomplish this through the objectives outlined in our budget presentation, which include:

- Strategically place signage to promote our Economic Development initiative at airports and seaports;
- Coordinate with the Bureau of Economic Research to take a more proactive approach in conducting real time economic impact studies to guide the strategic economic development responses;
- Enhance the Cost- Benefit Model to provide expanded reporting of data used in impact analysis;
- Complete town plans and implement the Enterprise Zone plan program
- Complete a comprehensive action plan for the functional operation of the Incubator Program;
- Prepare a comprehensive plan on Tax Incremental Financing (TIF) areas for review;
- Propose legislation to merge the Small Business Development Agency (SBDA) into the Government Development Bank (GDB);
- Propose legislation to create a "Commercial Zone Program" to revitalize 'un' and 'under' utilized commercial and industrial areas;
- Implement an online loan application for the Lending Division;
- Implement an online compliance reporting system; and
- Develop an electronic compliance case management system.

Conclusion

The EDC Program continues to benefit the Territory, but the program has drawn its fair share of skepticism. The critics have argued that we are giving away too much and that beneficiaries contribute little to our economy. They could not be more wrong.

Between 1999 and 2009, as reported in the EDC Impact Analysis Report prepared by the Council for Information and Planning Alternatives, Inc., a local consulting company, EDC beneficiaries made an aggregate of \$3.1 billion in direct expenditures, including \$1.5 billion in direct earnings, which supported 9,780 local employees. Additionally, they made \$1.1 billion in capital expenditures, of which \$618 million was classified as local capital expenditures, and \$25.6 million as charitable contributions. During this 11-year period, EDC beneficiaries' gross sales amounted to \$14.9 billion and local taxes, \$1 billion.

There are presently 20 companies that were approved and are pending their election of EDC benefits. The potential economic benefits to the Territory will translate into the creation of 1,145 new jobs, payroll of \$30.3 million, investments of \$520 million and charitable contributions \$673,000.

These statistics show that business attraction is critical to our economic revival. The world is watching and finding new ways to compete. Therefore, we must all work together to ensure that the Territory is well positioned to meet the challenges ahead. I am confident and excited about the future of our islands.

Thank you. I await your questions.