

Senate President Myron D. Jackson and Honorable Members of the 32nd Legislature, Lt. Governor Osbert Potter, Honorable Justices of the Supreme Court of the Virgin Islands, Honorable Judges of the Superior Court of the Virgin Islands, Delegate to Congress Stacey Plaskett, Honorable Judges of the District Court of the Virgin Islands, Honorable Ronald Sharpe, U.S. Attorney for the District of the Virgin Islands, Members of the Cabinet, Senior Staff, the Reverend Clergy, and my fellow Virgin Islanders; Good Evening.

I congratulate the entire 32nd Legislature on your election to this august body. I pledge to work with each of you in a deep spirit of cooperation and I trust we can

find common ground to improve the lives of our people. I also congratulate the new President of the United States, Donald J. Trump. I look forward to meeting our new President in February and working with his Administration to move the Territory forward. I want you to know that the new Administration has requested, and we have provided, a list of five major capital projects that may be included in the first phase of the President's initiative to invest in America's infrastructure. Our list includes the modernization of the Cyril E. King Airport Terminal at \$54 million, the third phase of the Veterans Drive Waterfront Project at \$80 million, a new school on St. John at \$32 million, the complete reconstruction of the Queen Mary Highway on

St. Croix at \$30 million, and the expanded Paul E. Joseph Stadium project at \$30 million.

Tonight, for the third time, I stand before you as Governor of the Virgin Islands of the United States, fulfilling one of my duties as mandated in the Revised Organic Act of 1954 – which is to report on the State of our Territory.

As I was preparing my remarks for this evening, I seemed haunted by the epic novel, *A Tale of Two Cities* by Charles Dickens.

Since Lt. Governor Potter and I entered office in 2015, we've faced almost inconceivable obstacles, with only the most meager resources to surmount them. Our Government was nearing the brink of financial collapse. Revenues were falling almost as fast as expenditures were rising. The HOVENSA facility was shuttered; unemployment was at record levels and rising; fiscal recovery was nowhere in sight; and our economic and financial difficulties were structural and growing. I made it my first priority as Governor, not just to improve the Territory's economic plight, but to fix the structural imbalances as well.

Two years later, we have achieved much in the pursuit of this goal. As a result of our efforts to promote economic growth and better manage our resources, I was heartened to report in 2016 that we had retreated from the brink of financial collapse and entered into a state of economic recovery. I am pleased to report that in 2017, our recovery continues and is accelerating. The economy continues to grow. The U.S. Department of Commerce, Bureau of Economic Analysis, recently reported that after declining for four consecutive years, the Virgin Islands economy grew for the first time in 2015. The same report confirms that GVI spending in 2015 was the lowest it has been in the six years since 2009. Major road projects and infrastructure

improvements are underway throughout the Territory. Visitor arrivals and overnight stays are up as are the number of new flights. The Territory is benefitting from a strong marketing campaign since the start of the winter season, bolstered by the tremendous media coverage of special offers, some in connection with this year's Centennial Anniversary events. Delta Air Lines has expanded its service to St. Croix and added new flights from Boston. JetBlue has also added additional flights and United Airlines has increased service both from Washington, D.C. and Houston. The acquisition of more flights from Houston remains especially critical for the growing number of tourists from the West Coast and also in our efforts to attract more Asian visitors, as Air

China operates daily nonstop flights to Houston from Beijing. One of the Department of Tourism's goals for this year is to continue to increase the number of nonstop flights to the Territory out of Houston, while working to further develop strategic marketing efforts in China as the storage terminal facility expands on St. Croix. The potential here remains huge and largely untapped.

Government revenues are increasing. The real estate market is on the upswing. The Limetree Bay Terminal facility is becoming a major contributor in our economy. The company is launching \$100 million of new capital projects this year. The Government of the

Virgin Islands leases 80 homes to Limetree Bay and we have just completed negotiations to lease them the remaining 41 houses to support the expansion projects.

Over the last two fiscal years we have reduced Executive Branch spending. In 2015, spending was down over \$30 million as compared against 2014 and in the first quarter of this fiscal year, the Executive Branch has reduced its spending \$12.5 million below authorized levels.

Notwithstanding, we have paid out over \$130 million in tax refunds and hired over 1,638 new full time employees, between January 5, 2015 and December 15, 2016. We have also paid salary increases to thousands

of Government workers, many of whom had not seen a pay increase in over a decade.

During the pendency of these activities, the Mapp-Potter Administration had no need to borrow money, and we incurred no new debt. Instead, we diligently paid down on our old debt. Thanks to our cost-saving measures and better management of our resources, the Virgin Islands Government has spent less money in the last two individual fiscal years than it did in the previous five individual fiscal years.

Revenues collected by the Government are up and I must commend the Director of the Bureau of Internal Revenue, Marvin Pickering, and the employees at BIR

on increasing collections of delinquent taxes. The BIR has collected over \$43 million in delinquent taxes this past year – exceeding even our projections by \$10 million. Thank you BIR for your hard work.

Delinquent tax collections have also increased at the Office of the Lieutenant Governor. The Office collected \$34.7 million out of the \$51 million billed under the 2016 property tax bill. In the past year, \$18.9 million in delinquent prior year property taxes were collected with \$5.7 million delinquencies collected in the first quarter of FY 2017, a significant increase over this period in 2016. Property owners are encouraged to take advantage of

payment plans, which are available at the Lt. Governor's Office.

Our unemployment rate has fallen significantly because overnight visitor arrivals are increasing, new businesses are opening and additional jobs have been created in the public and private sectors. There has been a 14 percent decrease in unemployment on average in the Territory and more than a 23 percent decrease on St. Croix. New private investments, new employment, and more consumer spending have helped propel our economic revival.

To maintain this momentum, tens of millions of dollars will be spent on road and other capital projects launched this year. My mantra for 2017 is, “Implement and Complete Projects – Let’s Get the Job Done”.

But you may be asking, why is he so haunted by Dickens’ *A Tale of Two Cities*?

Well, on one hand our economy is stronger than ever and growing, but on the other we need to address the cash flow issues in the public sector. We have financial challenges, which require real action on all our parts.

For the first two years, the Mapp-Potter Administration averted the need to borrow working capital. We bridged our budget gap with new public private partnerships. However, the growth and expansion of our economy is neither large enough nor fast enough to avert our need for bridge capital to close the gap on the operating deficit.

Needless to say, recent access to the capital market has been elusive and we need to heed the criticism from the investment community. Access to the capital markets will be challenging unless we make some reasonable decisions to implement actions to reduce our operating costs, to identify and enact new revenues, to

grow our economy so we can eliminate our structural deficits.

We have learned from the investing community that investors have little appetite for purchasing GVI securities until we demonstrate action on reforms to address our fiscal imbalances. I assure you that continuing to borrow money to cover operating expenses cannot be a public policy, but rather a temporary stop gap measure that must come to an end.

During the 31st Legislature, I submitted a Five Year Plan to eliminate our structural deficits by 2021. I have again submitted this plan to the 32nd Legislature. The Public Finance Authority and our financial team produced this comprehensive Five-Year Plan. This plan,

if fully implemented, will eliminate our structural deficit by the year 2021. However, this plan, if not fully implemented, or if a similar plan containing reduced operating costs, increased revenues, and new economic growth at comparable levels is not implemented, it will surely result in painful burdens being placed upon our community. We have met with business leaders and members of this body and we are listening to your suggestions and concerns.

To return to fiscal health, everyone must play their part and be prepared to carry a small piece of the burden. Reductions of operating costs must be borne by all branches of this Government and not only the

Executive Branch. If we don't take decisive action, jobs will be lost and services will be curtailed due to the reduction in cash flow. However, that being said, the Government's current ability to pay its bondholders is not in doubt nor in jeopardy.

I think it is important to explain how and why we will continue to meet our payments to bondholders. When we authorize debt we set aside dedicated revenue streams to pay our creditors. The Government of the Virgin Islands has no access to these revenues until our obligations are first met to these bondholders. The bonds are paid first! And only then do we gain access to the remaining revenues for our operating expenses. It is

like a payroll deduction – we pay the lenders before we see our paycheck.

Our Matching Fund Bonds are supported by rum revenues. Since the issuance of the first Matching Fund Bond, we directed the U.S. Secretary of the Treasury to transfer 100 percent of the advanced payment of rum revenues to our Bond Trustee. The Bond Trustee, then deducts the annual debt service payments for the bondholders and transmits the remaining amounts to the Government of the Virgin Islands. Only then are these remaining amounts subject to appropriations by the Legislature and accessible by the Government.

For 2017, the U.S. Treasury Secretary transferred the advance payment of \$203 million in matching fund revenues to the Bond Trustee in September 2016. The Bond Trustee deducted the \$108 million and paid the annual debt service on the Matching Fund Bonds for 2017. The remaining amounts serviced our obligations to the rum producers and then flowed to the treasury of the Virgin Islands Government. Only this remaining amount was subject to appropriation by the Legislature. This is the structure of all our debt instruments.

Likewise, collection and payment of our obligations on our Gross Receipts Bonds work exactly the same. We collect Gross Receipt Taxes and these taxes are deposited daily with the collection agent, who then

transfers 100 percent of the monthly gross receipts tax collected to the Bond Trustee. The Bond Trustee withdraws 1/12th of the annual debt service payment and remits the remaining amount to the Commissioner of Finance for use in the operation of the Government as authorized by appropriation. Again, I underscore that only those sums remaining after payment on these bonds are available and subject to appropriation by the Senate.

Our operating budgets are always constructed on revenues paid to us only after payment to bondholders – no payment or bond debt is subject to appropriations

of the Legislature. We have no ability to divert payments away from our creditors.

In addition, we have another layer of collateral to support our debt obligations - we maintain a debt service reserve escrow fund under the exclusive control of the Bond Trustee. This fund contains more than \$175 million - a sum greater than the total annual debt service payment on all outstanding bonds of the Government of the Virgin Islands. In the entire history of the U.S. Virgin Islands, no creditor has ever sought access to our debt service reserve fund because the people of the Virgin Islands have never been late on a payment, much less defaulted on a bond or loan agreement.

Notwithstanding the strength of these credit instruments and our credit history, the financial markets are concerned. As a community, we have not taken decisive action to resolve our structural imbalances. This is our singular challenge in 2017.

So who is in harm's way of this cash flow challenge? It's us – the Government employees and all who depend on Government services. The situation is real and is trending towards critical. So I urge the 32nd Legislature to enact the proposed reforms now. If we do not act, I want you to know that by the second pay period in February, the Government of the Virgin Islands may not have enough money to make its payroll. If we do not act to authorize meaningful measures to eliminate our

structural deficit, we will create a serious domino affect across our community. So let us take real action to bring our territory to fiscal health, not for the investment community, but for us now and generations to follow.

The Virgin Islands Revenue Enhancement and Economic Recovery Act that I have sent to you is designed to capture available revenues sitting on the table without increasing the basic cost of raising a family or operating a business. Allow me to emphasize, the new monies identified in our proposal are designed to capture available new revenues without increasing the basic cost of raising a family or operating a business.

Some in our community continue to discuss the impact of sin taxes or taxes on rum and tobacco products. So, let me offer you a perspective. In 2017, 15,300,000 gallons of proof rum produced in the Virgin Islands are expected to be sold on the U.S. mainland. As a result, the U.S. Treasury Secretary has paid the Bond Trustee our 2017 advanced payment of rum revenues in the amount of \$202,775,000, calculated at \$13.25 of excise taxes on each proof gallon of rum.

If this 15,300,000 proof gallons of rum were sold here in the U.S. Virgin Islands, the people of the Virgin Islands would receive exactly zero dollars in excise taxes. Listen, if 15,300,000 proof gallons of rum were

sold in the US Virgin Islands, the people of the Virgin Islands would receive zero dollars in federal and local excise taxes because rum and spirits sold in the Territory are exempt from excise taxes.

As part of our effort to maintain public services and employment and eliminate our structural deficit, we are asking the members of this body to assess a 10 percent excise tax against the landed value of distilled spirits and wines imported and sold in the U.S. Virgin Islands. On a liter of rum, that tax would equate to approximately 80 cents. For comparative purposes, on the US mainland, that same liter of rum is now being assessed a federal excise tax of \$3.57 per bottle.

Furthermore, this liter is also subject to additional state, city and/or county taxes.

In addition, we are asking you to increase the excise taxes on tobacco products, to impose limitations on credits which may be applied against property tax obligations, to impose gross receipt taxes on internet sale of commodities destined to the Territory, to impose a one cent per ounce tax on carbonated sugar beverages, and to impose an environmental-infrastructure impact fee on time share owners. These new revenues are critical in closing the structural deficits, maintaining services, and maintaining employment levels. In the past few days, we have heard suggestions from the

business community to consider imposing a time certain income tax surcharge and an incremental increase in the mil rate of property taxes. The private sector also encourages us to make a real and concerted effort to cut our operating expenses. I want to assure you that these are excellent suggestions and we will work with you to incorporate them.

Lt. Governor Potter and I remain conscious of our indebtedness to government workers. We believe strongly that every worker that took an 8 percent pay cut in 2011 and 2012, should be fully reimbursed for the lost wages. As the U.S. Third Circuit Court of Appeals has ruled, the 8 percent cut was unconstitutional. So we

have options, either provide for this contingency or wait until it is thrust upon us. I believe we must respond to the Third Circuit Court ruling in whole because this ruling is also instructive in how we should bargain in good faith with our employees.

As a result, our plan for economic stability includes a provision to pay government employees back for the losses they suffered as a result of their two year 8 percent pay reduction. I am asking you for your support to accomplish this.

Cutting operational cost is also critical – in the first quarter of this fiscal year, we have reduced Executive Branch spending by \$12 million: \$3.5 million in

allotment reductions and \$8.5 million in additional spending reductions and savings. This week, we will do more. I will execute an Executive Order freezing vacant positions except for those that are federally funded as well as those for first responders and teachers. I will curtail all non-essential travel and I will direct the Chief Negotiator to suspend all negotiations for salary increases pursuant to the U.S. Third Circuit Court of Appeals ruling in the VIESA case. I will convene a cabinet meeting and work with my Commissioners to implement a path to further reduce spending in each department and agency. I am asking my colleagues, the President of the Legislature, and the Chief Justice of the Supreme Court, to do the same in your branches of

government. I can assure you we will achieve fiscal health if we do what is required.

I will soon transmit legislation to reform the Economic Development Commission process. The EDC program has been one of our most dynamic engines of economic growth, providing tax incentives to attract investment and to create jobs in the private sector. In the past year, we activated eight new EDC certificates, which will create 198 jobs and expected to generate \$15.5 million in tax revenues over the next five years. We have attracted seven new applicants to the EDC program, which will create 105 jobs and are anticipated to generate an additional \$2.8 million in revenues. But, too

often in the past, the growth of EDC benefits hasn't correlated to the number of promised jobs and projected investments. At the same time, the EDC bureaucracy and lengthy processing time, compounded with issues within its Compliance Unit, have caused several would-be investors to pull their applications and have discouraged others from even applying in the first place. Accordingly, in the first quarter of this year I will send you a package of EDC reforms to re-invigorate our EDC program by streamlining the application process and requiring final decisions on applications within 90 days of receipt. We will expect beneficiaries to adhere to their obligations under the grant of benefits. We will also

propose a sliding scale of benefits for EDC renewals, where appropriate.

It is equally important that we address the dire financial condition of the Government Employees Retirement System. For over 20 years, GERS has paid out more in pension benefits than it has received in contributions. Just in the last six years, the net pension trust fund of the system has declined by \$544 million dollars, from \$1.5 billion dollars in 2009, to \$991 million dollars at the end of fiscal year 2015.

The harsh reality is that even though the actuarial consultants have projected that the system will run out

of assets within six years, or before September 2023, GERS will run out of cash before it runs out of assets. Investing additional money into the system is not the only solution and the GERS board cannot be expected to reform the system on its own. We, the Plan Sponsor, must act now.

The insolvency of the GERS would cause serious economic hardship on every family and every business in the Virgin Islands. Such an insolvency would seriously hurt our economy. I plan to host public hearings in both districts and forward comprehensive reforms to this body before the end of March of this year. Some of the reforms we will offer include:

- Margins and mitigation risk for workers and taxpayers.
- Adopting federal guidelines for a sustainable pension plan.
- Instituting self-correcting mechanisms that are triggered when funding levels drop below acceptable thresholds.
- Assessing required contributions against higher levels of pay without concomitant increases of benefits.
- Increasing the minimum age for qualification of retirement benefits.
- Reducing the annual accrual rate from 2.50 percent per year.

- Instituting anti-spiking provisions and determining retirement benefit over a ten-year period of compensation versus five.
- Identifying and implementing a plan to address the Plan Sponsor's actuarially determined contribution requirements.
- Require that the GERS Board have a minimum number of members who have demonstrated knowledge and experience in managing financial portfolios.

These are but a snippet of the suggested reforms that we will offer and submit to the Legislature before March 31, 2017.

However, before submitting our proposed reforms, we want to obtain input from all stakeholders, including retired and active members of GERS, GERS administrators, government officials and members of the public and private sectors to ensure that comprehensive pension reform legislation is properly communicated and responsive to the needs of all those affected. While the task of comprehensive pension reform is a difficult one and the timeframe is short, this is a another challenge that must be met.

There is more to government than money, so allow me to devote some time to address our achievements

and aspirations. We have accomplished much that deserves recognition.

Lt. Governor Potter and I pledged advances in technology throughout our government. Under the direction of our new Bureau of Information and Technology Director, Angelo Riddick, we are moving forward. This agency is not only assisting in digitizing our records, but is also helping us develop new strategies for cybersecurity and assisting with technical support critical to the modernization of the V.I. Police Department.

Dr. Mark McGibbon, CEO & President at the Virgin Islands Next Generation Network, reports that for the

first time, his agency is operating in the black. We look forward to many advancements in our ability to make high speed broadband access available in every corner of the Virgin Islands. Dr. McGibbon and his team are working with the local ISP community to build out the last mile to connect every corner of the Territory to this robust infrastructure.

The Department of Public Works continues improvements to our Territory's roads. Our efforts to temporarily streamline the procurement process have enabled a number of previously stalled projects to go forward; yet, I remain frustrated by the slow process to get projects started. Following the deluge of rains, we have begun to address some of our long-standing

problems. Multiple road projects are about to begin to include Turpentine Run, commonly known as the Bridge to Nowhere, and the Kingshill, Fish Bay, and Centerline Roads on St. John.

On St. Thomas, we will soon start at the Lovers Lane Intersection and Long Bay Road, down to the Fort Christian Parking Lot on the waterfront. We are about to begin construction on the Scott Free Road, and completion of the Coki Point Road.

On St. Croix, road projects will include the streets of Christiansted and Frederiksted towns, portions of Route 74, Spring Gut Road, Route 81 from Free Will Baptist School to Schuster's Water; milling and surfacing of the Melvin Evans Highway, construction of Mahogany

Road, rebuilding the Est. Carlton Road from Melvin Evans Highway to Queen Mary Highway, and Hams Bluff Road. The investment in these projects will generate more jobs and other economic activity as these funds are circulated throughout the community.

In 2016, the Department of Public Works implemented a new program focused primarily on addressing litter. The newly formed clean-up crews have begun the work of removing litter, clearing brush, and reporting on areas where road repairs are needed or streetlights are not functioning.

VITRAN continues to implement improvements. This Administration initiated weekend and holiday bus service and additional service on St. John just a little over

a year ago and there has been a very positive response from the community – particularly our seniors. (New senior transportation is on order)

This year we will complete the Request for Proposal and launch harbor transportation in downtown Charlotte Amalie, to include stops at: WICO; two stops on the waterfront; stops at the Crown Bay Terminal, Water Island Ferry Dock and back to WICO.

Changes are being instituted at the Virgin Islands Water & Power Authority based on the findings in a management audit. Beginning with generation capacity at the St. Thomas Randolph Harley power plant, WAPA is focused on introducing up to seven new generating

units to replace inefficient and unreliable aged generators by the end of this year. WAPA is negotiating with two companies to provide seven new generators with an option to acquire an additional six units. This will not only add stability and efficiency to the production of electricity, it will allow WAPA to begin the process of decommissioning older units that are simply too large and too costly to operate. WAPA has begun its due diligence to place a second generating facility on St. Croix's south shore. Based on WAPA's plan, six new units are proposed for the south shore to provide redundancy and reliability to the electric grid on St. Croix.

Here are the facts about WAPA, when Lt. Governor Potter and I entered office in January 2015, WAPA's residential customers were paying 52 cents per KWH and its commercial customers were paying as high as 55 cents per KWH.

Today, WAPA residential consumers are paying, all cost in 29 cents per KWH and commercial customers are paying 32 cents to 34 cents per KWH. My friends this is a 45% reduction in cost per KWH. For WAPA to improve, for WAPA to bring the cost of power down below 29 and 34 cents per KWH and for WAPA to end the disruptive power outages; WAPA must purchase new and smaller generating units. I think you will agree that 30, 40 or 60-year-old generating systems cannot

make WAPA more efficient and less costly. For WAPA to improve, it needs the 3 to 5 cents per KWH rate increase to acquire the new generating units to replace the obsolete units we are now using.

I will invite the PSC in to discuss this matter with me and to ensure that any new base rate increases are restricted to acquiring, installing and operating the new units, as well as funding for maintenance of the systems and ensuring an uninterrupted fuel supply. None of the new money for administrative positions.

WAPA has laid out an aggressive schedule of adding more technology to the electric grid. The Authority is improving on the services provided to its

customers. The Authority's moving in the direction of a smart electric grid to reduce the frequency of power outages and providing for a quicker restoration from service interruptions. We cannot stop the improvements to WAPA's generating systems over a 3 to 5 cents KWH increase when our power bills have been reduced by 21 to 23 cents a KWH in the last two years.

In 2015, we received \$5.2 million in reimbursements to the General Fund and in 2016, we have recovered an additional \$4.8 million in reimbursements through the Department of Planning and Natural Resources from the U.S. Environmental Protection Agency. I thank Commissioner Dawn Henry and her staff for their hard

work and diligence. DPNR's Division of Fish and Wildlife has been completely removed from high risk status and was able to recoup another \$1.5 million from previous grant awards. DPNR's Division of Environmental Protection became the official recipient for over \$8 million dollars in direct grant funding as the manager of the U.S. Virgin Islands EPA Drinking Water and Clean Water Construction Revolving Funds. These funds will be used exclusively to improve the Territory's drinking water supply, the Territory's wastewater treatment plants and stormwater runoff projects. These programs show the powerful and effective alliance that has developed between EPA and the U.S. Virgin Islands during this Administration.

The DPNR Divisions of Environmental Enforcement and Coastal Zone Management are performing assessments of the Territory's bays as part of Act 7894, which I signed into law in July of last year, to establish long overdue increases in mooring and anchoring fees. These funds will be used specifically for resources to aid DPNR's Division of Environmental Enforcement.

Fishermen throughout the Territory are experiencing improved catches due to the new fishery habitats created by the deployment of Fish Aggregating Devices. Eight of these devices were deployed in 2016 by the Division of Fish and Wildlife and they are

managing our fish stocks and benefitting our local fishing industry by attracting fish to specific areas, making them more accessible to anglers.

We have made strides in the treatment of our mentally ill since I declared a State of Emergency due to the lack of adequate psychiatric care in the Territory. The Department of Health has laid the foundation for the implementation of long necessary mental health services and expansion of programs in this area. In August, 2016, the Department of Health established a Behavioral Health Planning and Advisory Council, which is charged with making recommendations for funding and delivery of services in addition to

advocating for children and adults with mental illnesses. Representatives from the private and public sectors are included on this Council, as are individuals and family members with first-hand experience dealing with these difficult matters. The Department of Health has begun to complete the federal requirements that were necessary in securing recent Community Mental Health and Substance Abuse block grants to train staff on the delivery of mental health services.

We are also nearing the final stages of National Health Service Corps certification for the Christiansted mental health clinic, with plans to have all mental health clinics certified within the next year. However, we are

not waiting on this certification and under the existing State of Emergency, we have begun recruiting mental health practitioners.

The Office of the Lt. Governor anticipates finalizing an individual health insurance plan by the end of March, which will ensure access to nearly 30,000 residents to whom health insurance is not currently available. You should know that all health insurance companies licensed in the U.S. Virgin Islands were asked to submit an individual health insurance plan for consideration and the Lt. Governor and I will continue these efforts until every single Virgin Islander has access to affordable health insurance.

Our hospitals are staffed with good, hard-working people who are unfortunately operating in a poorly established system, a system that was put in place long ago. We must move forward with reorganizing the operations of our hospitals – it is within the power of the Territorial board to make changes. A recent ruling at the Superior Court reaffirmed that our hospitals are under the legal jurisdiction and control of the Virgin Islands Government Health and Hospital Facilities Board. Our two hospitals average 130 filled hospital beds, yet employ more than 1,220 individuals. Many obvious opportunities exist for reducing redundancies and lowering operating costs. I have sent to the Legislature several nominees to fill critical vacancies on this Board

and I urge Senators to act swiftly in confirming them. I remind the Senate that we must provide an infusion of working capital to our hospitals to address their obligations to their vendors.

In September 2015, a site visit was made by the U.S. Department of Health and Human Services Regional Program Manager, Alphonso F. Nicholas, to assist the Department of Human Services on our Title IV-E application.

We learned during Mr. Nicholas' visit the importance and impact that Title IV-E certification can have on improving the lives of children in foster care. Human Services immediately began work on our application with his assistance. The application was

approved by the U.S. Department of Health & Human Services on October 20, 2016 and the Virgin Islands will be submitting our first claims for reimbursement tomorrow – January 31.

Tonight, I want to commend and thank Mr. Nicholas on behalf of the people of the Virgin Islands for his tremendous help and contribution in securing our Title IV-E certification. We also owe a debt of gratitude and commendation to Assistant Human Services Commissioner Janet Turnbull-Krigger, who was instrumental in pursuing Title IV-E approval and stayed focused on seeing the process through to fruition. This approval brings upwards of \$15 million in reimbursements to our treasury as well as \$7 plus

million per year for services in support of our foster children.

We look forward to working with the professionals at the Department of Human Services so we can better serve our youth, families, seniors and disabled populations.

I am pleased this evening to formally introduce the new Acting Human Services Commissioner Ms. Felecia Blyden. Ms. Blyden rose through the ranks at the Department, having worked more than 25 years at Human Services. We welcome her to this new role and I will forward her nomination as Commissioner of the Department of Human Services to the Senate this week.

The Department of Education carried forward the theme, *Transformation through Teamwork*, and recently completed a Strategic Performance Management Plan. This plan provides a foundation for the agency to implement a new way to improve the quality and responsiveness of public education for all children.

Tonight I am proud to congratulate and acknowledge our Teachers of the Year. The St. Thomas/St. John District Teacher of the Year is Ms. Kendra Vicars -and, our St. Croix District Teacher of the Year as well as the 2017 Territorial Teacher of the Year is Ms. Dinah Browne. Thank you for your commitment to our students. We

are counting on you for your leadership and tenacity as we work to make improvements in all of our schools.

The Department of Education has made significant strides in improving its Maintenance Division. Maintenance is now an on-going day-to-day endeavor that is addressed by teams which are assigned to schools. I am pleased to inform you that the Army Corp of Engineers has full-time personnel in the Territory totally dedicated to the deferred maintenance program. Federally funded projects are scheduled to begin at John H. Woodson, Alfredo Andrews, Alexander Henderson, Arthur Richards, Bertha C. Boschulte, E. Benjamin Oliver, Lockhart and Yvonne Bowsky schools. A new

kitchen has been installed at E. Benjamin Oliver School and we are prioritizing efforts to complete work in other school kitchens. Capital projects are coming on-line in both school districts to include work on the tracks at Ivanna Eudora Kean and St. Croix Educational Complex, and major roofing projects at both the Pearl B. Larsen and Juanita Gardine Schools.

Our new Territorial Director of Athletics has been tasked with revitalizing the athletic calendar and upgrading facilities and equipment for all of our sports programs. Furthermore, the Education Department now has a formal agreement with the Department of Sports, Parks and Recreation to better coordinate

various athletic initiatives which are now possible with the newly authorized funding approved by the 31st Legislature. Tonight, I proudly salute the Bertha C. Boschulte Middle School Basketball team for their recent win in Mexico. The team brought home the gold, having won the tournament!

I must thank our public school students for their participation in this year's Crucian Christmas Festival parades – our student farmers, athletes and musicians from all three islands truly made this year's parade an event to remember! How heart-warming it was for us to see the marching bands and majorettes from Ivanna Eudora Kean and Charlotte Amalie High Schools doing

a choreographed performance together. We look forward to seeing the marching bands and majorettes from Central High and the Educational Complex performing together in the carnival parade on St. Thomas and all four high school performing together on the 4th of July on St. John.

The Education Department has worked with private sector organizations to successfully launch the Guy Benjamin Community Center. Partners in Hope Inc. has brought resources to assist in getting the facility reopened and now there is tutoring available; a reading program has been established for young learners, and classes are being taught by the St. John School of the Arts. The Virgin Islands Police Department and the St.

John Administrator will soon be opening offices at the site, making Guy Benjamin a true center of community activity on the east end of St. John.

It is important for our quality of life that we do a much better job of keeping our islands clean. To ensure respect of our beautiful home, the Department of Education has joined the anti-litter/green living campaign by joining hands with other agencies to include the V.I. Waste Management Authority, Department of Tourism, and Public Works.

Our children have also benefitted from new programs developed by the Department of Sports, Parks and Recreation. The Department has been successful in

implementing structured programs for our children in order to keep them engaged in positive and healthful activities. Under the leadership of Commissioner Pedro Cruz, Sports, Parks & Recreation has significantly expanded its summer and afterschool programs - in Fiscal Year 2016, they served over 5,636 children – a new record for the Department.

Our young athletes desperately need new facilities, and since getting additional resources to expand this project seems unlikely, we have issued a formal notice to Coastal Systems International and GEC to proceed with the construction of the new Paul E. Joseph Stadium project and surrounds. This new sports complex is part

of the revitalization of Frederiksted and will both offer new opportunities for our local athletes and advance sports tourism. Within the coming weeks, construction activity will be evident at the site.

For many years the USVI has enjoyed a mutually beneficial and productive relationship with the cruise industry. St. Thomas held the enviable position as the number one cruise destination in the Caribbean. Unfortunately, some of the key elements of that longstanding relationship, including trust and a shared sense of responsibility, have recently begun to erode. This erosion has driven ships from the USVI to other destinations. In order to restore this critical relationship

which plays a significant role in our economy, we had to reset the dial on the partnership between the Port Authority and the cruise industry.

We began by implementing leadership changes at the Port Authority and we are working diligently to address any remaining sources of conflict or discord between the Port Authority and the cruise industry. Last week I dispatched Commissioner Beverly Nicholson-Doty to a series of meetings with our partners in the cruise industry. The Commissioner has reported that her meetings have been very productive and have set the tone to retool our relationship. Let me share some of the concerns raised by cruise line executives

from that meeting. They expressed tremendous frustration with what they defined as a “deteriorating relationship with the Territory”, further describing it as “damaged”. They expressed concerns with their experience with the V.I. Port Authority over the past couple of years and described their relationship with the Executive Director as unnecessarily antagonistic and confrontational. Going further, cruise line executives clearly stated they felt like they had just gotten married, based on the execution of a long term berthing agreement with the Port Authority, but already felt like a divorce should be considered.

We will do whatever is necessary to resolve these issues, increase the number of cruise calls to St. Croix

and to strengthen St. Thomas' position to recapture Charlotte Amalie as the #1 destination in this region. I am asking the Governing Board of the Port Authority to repeal the \$4.50 per passenger water excursion fee that was recently implemented by the Port Authority. This fee is driving business out of the Territory.

I have directed the Commissioner of Tourism to serve as a facilitator for the reestablishment of the Ports of the Virgin Islands. This engagement has been welcomed by the cruise industry. She will be responsible for working with key stakeholders to deliver to me, within the next 60 days, an action plan to address this industry's growing concerns. I will invite members of

the business community to participate and be a part of this process. Collectively we must improve and reinvigorate our cruise product and passenger experience.

In addition, with welcomed growing overnight visitors, there is a tremendous need for improving our airport terminals, particularly at the Cyril E. King Airport on St. Thomas. The terminal's expansion can be a major revenue producing opportunity for these improvements, as well as provide comfortable and efficient facilities to house our arriving and departing visitors. We are now working to identify private partners to bring this vision to reality.

This year we commemorate an important milestone as we recognize our 100th anniversary as a U.S.

Territory. The members of the Transfer Centennial Commission have been planning and incorporating events with the assistance of individuals and organizations - locally, internationally and from the mainland United States - to ensure a year's worth of observance of our Centennial. Lecture series, parades, festive street parties, concerts, craft and cultural events are planned for all three islands. The Centennial Commemoration is slated to provide a glimpse of where we've been, where we are, and where we're headed as a Territory. Yet still, there is more to be done and I would urge both individuals and organizations with proposals or time to volunteer to contact the Centennial Commission.

Several days ago I met with the Danish Consul General to the U.S., Ms. Anne Dorte Riggelsen, to discuss our Centennial commemorations and to develop a plan to welcome the participation of visitors and dignitaries from Denmark. Tonight I am pleased to announce that Fort Christian, here in Charlotte Amalie, is slated to reopen to the public by March 23, 2017.

Under the leadership of Commissioner Carlos Robles of the Department of Agriculture, the agency's high-risk designation has been removed by the U.S. Department of Agriculture. This paves the way for new funding. The Department of Agriculture was recently awarded a new federal grant for farm training and to

advance our Farm-to-School initiative. I commend the Commissioner and our local farmers for providing fresh fruits and vegetables on the lunch plates of all students in the Territory.

The landfills of the Territory remain under an expensive Federal Court Consent Decree. I am, again, urging the members of this body to approve two bills that were recently resubmitted to the Legislature to establish source separation, recycling, and to establish redemption centers so beverage containers sold in the Virgin Islands will no longer litter our roadsides, towns and beaches. These are two of three solid waste bills I sent to the 31st Legislature in 2016. They were crafted to

work together to resolve long-standing litter, landfill and waste management issues under our federal consent decree. Only the ban on plastic bags was acted on and we applaud you for doing so. However, I urge the 32nd Legislature to approve the remaining two bills to regulate solid waste in the Territory. I will sign an executive order requiring all executive branch government agencies to develop a source separation program for their offices, their staff, and the general public. Our new Waste Management Authority Executive Director is Mr. Roger Merritt. Sir, I welcome you on board.

I have met with the new Executive Director and we have agreed to immediately construct three additional

refuge centers, two on St. Thomas and one on St. Croix. This is important so we can finally remove the unsightly and unhealthy bins strewn about our islands.

The 2017 increase in our minimum wage is expected to make a positive impact when the hourly minimum wage rises to \$9.50 on June 1st. We should be proud as a community to have adopted laws to move our workers closer to a living wage. The Bureau of Economic Research will track the economic impact of the new minimum wage and report to us on their findings.

The security of our Territory continues to be a top priority for this Administration. The areas of justice,

law enforcement, security and emergency operations have seen much improvement as we moved forward from the assessment and planning phase to the execution and implementation of many of our strategies. The VIPD and the V.I. Department of Justice are working closely together. As a result, we see more arrests and more prosecutions. Defendants who have fled the Territory after committing serious crimes are being apprehended and returned to the Virgin Islands to account for their actions. This collaboration has also resulted in increased confiscation of illegal firearms coming into the Territory.

Commissioner Delroy Richards and his team at the Virgin Islands Police Department remain committed to

protecting and serving the entire Virgin Islands community. In FY 2016, the V.I. Police Department made good on its promise to better train and equip its officers. The Department has pledged to improve the working conditions of its employees and provide much needed resources to keep our community safe. In 2016, the Mapp-Potter Administration fulfilled its commitment to begin to provide top-notch training for our police officers – sending eight officers to the New York Police Department Training Academy for six months. These officers received comprehensive and advanced training in police science.

We are proud that three of our VIPD officers were awarded top honors from the NYPD Academy. I am

pleased to tell you that four new officers from VIPD will begin training this month at the NYPD Academy. Training of police officers is occurring all across the Department, in homicide investigations, forensic science, and police management; even our Police Chiefs have attended training at the International Association of Chiefs of Police. Promotions of uniformed personnel including sergeants, lieutenants, and captains will happen by the beginning of March of this year.

Despite some recent high profile cases, crime is down overall as a result of many initiatives that were implemented over the last 12 months. Territory-wide robberies are down by more than 46 percent, felony

assaults down 35 percent, and burglaries down 30 percent as compared to 2015. This reduction is also a result of increased cooperation by residents coming forward and assisting the VIPD. For this I say, “Job well done!” Through innovative initiatives, we are determined to reduce violent crime, particularly homicides. I have asked the Police Commissioner to provide me a strategy on how his department will combat the sexual assaults that are being reported on the east end of St. Thomas.

I promised that police presence would be visible throughout the Territory and have established a mobile

substation on Water Island in response to increased drug trafficking in that area.

We also commend all of our federal law enforcement partners for many of the joint initiatives that are resulting in higher confiscations of weapons, contraband, and arrests. The partnerships between our local law enforcement community and our federal partners are real and solid. I thank all of the federal law enforcement officials for their assistance and cooperation.

In 2017, we can expect the Virgin Islands Police Department to construct a state-of-the art evidence room, to work with our Justice Department on its new

forensics lab, to fully implement a new Records Management System, and institute Automatic Vehicle Location and Facial Recognition Systems - which will integrate several different technologies to track vehicles and persons of interest in real time and enhance the effectiveness of our police force.

In May of this year, the Virgin Islands National Guard and VITEMA, will host joint exercises in Operation Vigilant Guard 17. These exercises provide an opportunity for our federal and local agencies to improve emergency coordination, response, and recovery. Please tune into our local media for updates on this disaster simulation and do not be alarmed if you

see our National Guard and other emergency responders in action.

I am also pleased to announce that VITEMA under the Leadership of Director Mona Barnes, has been removed from high risk status. The US Department of Homeland Security has renewed faith in the Virgin Islands Government's ability to manage its grants portfolio and allowed VITEMA greater access to approximately \$2.5 million in new funding.

My fellow Virgin Islanders, it is important for all of us to remember that these matters of preparation are

critical and can determine the difference between an unfortunate event versus a catastrophe.

Attorney General Claude Walker and the Department of Justice must also be commended for their work in fighting crime, pursuing our interests in civil cases, and collecting long-overdue child support payments. The Department of Justice is in the process of opening a forensic laboratory, to include a Medical Examiner's morgue on St. Thomas. This is the first time that such a stand-alone facility has existed in the Territory.

DOJ's forensic laboratory will be used by the Medical Examiner to conduct autopsies and will help

law enforcement to better store and analyze evidence. A similar forensic facility will be opened on St. Croix to serve that district.

Act 7866, signed into law April 2016, establishes the \$10M Emergency First Responder credit facility, which authorizes the acquisition of vehicles and equipment attendant to the duties of the Office of the Medical Examiner within the Department of Justice.

Some of our young people are interested in working in the field of forensic science. So I have tasked the Attorney General to develop a forensic science cadet program at DOJ where young Virgin Islanders can be exposed to this profession.

Director Clifford Joseph Sr. and his staff continue to improve Virgin Islands Fire Service operations. With the addition of 28 new firefighters and promotion of many to uniform rank positions, the Fire Service is on its way to solving its personnel problem and raising its core competency to the highest levels.

In the last year, in addition to fighting fires on both land and at sea, the Fire Service was proactive - conducting propane firefighting training in order to be prepared, given the size of the propane fuel supply facility of the Water and Power Authority.

The Bureau of Corrections continues to make progress against its consent decree regarding its facilities. BOC has begun to create new policies, implement new procedures, and is now ready to make upgrades to our prisons. Security measures have also been significantly beefed up and we have dramatically slowed the introduction of contraband into our prisons – several persons have been arrested for trafficking contraband into the prisons. I’m not sure if we have solved the mystery of who broke into Golden Grove, but BOC progress towards consent decree compliance has been praised by the District Court.

Tonight, I thank this body, and all those who worked to negotiate, draft, and approve legislation, that

will allow for a \$30 million in private investment in the Territory's horse racing industry. I am urging the 32nd Legislature to approve the necessary anti-doping statutes and to consolidate the St. Thomas and St. Croix Horse Racing Commissions into a single commission. This will allow us to move forward to implement the construction of modern horseracing tracks, paid for with private capital.

I am pleased to congratulate members of our National Guard and to thank those who have so honorably served both at home and abroad. Approximately one year ago, I attended a yellow ribbon ceremony at the V.I. National Guard Armory to honor 24 members of the 786th Battalion who were being

deployed to the Middle East in Operation Freedom Sentinel. This evening I can say that all of our soldiers have returned to the Virgin Islands safe and sound. I thank each of you for your service.

I also want to recognize acts of bravery, honor, heroism, and selfless service. I thank Sergeant Cornelius Jn-Baptiste, Sergeant Titus Dubois, Cadet Rasheed Escobar, Private First Class Deron Van Lange, and Private First Class Brandon Titre for their brave acts of heroism. These soldiers rescued four individuals from a burning vehicle that crashed into a tree on Queen Mary Highway on December 3rd. From a grateful community, we say thank you.

Tonight, I must thank and commend Members of the 31st Legislature for the ability to disagree on some matters, yet you were able to work with the Mapp-Potter Administration in mutual benefit of this Territory. Since we worked in the common interest, we created economic growth, we enacted salary increases, we pushed the minimum wage higher, we improved public safety and education, and we generated private and public sector employment opportunities. We also paid over \$130 million in income tax returns and provided support for after school programs for our youth, provided support for high school athletes to compete in the BVI, Puerto Rico and the USVI. Finally, we executed two very substantial private sector investment

partnerships - all in two years and without borrowing a penny.

There is still much to be done, and I am seeking to create a similar working relationship with members of the 32nd Legislature. If leaders come to the table offering no ideas or recommendations and only criticism, and always and only saying no, then they will not be a part of any solution. If the extent of one's participation is "Meh no like" or "No, no and no again meh son", without offering a viable alternative solution, then your value at the table will be marginal at best. If you do not agree or like my plans and recommendations to solve our problems, then bring alternatives to the table and we

can work to reach consensus. This is the least that the people of the Territory deserve.

When those heroic young soldiers approached that burning car, none of them stopped to argue over who was in charge or who should do what; they collectively jumped in and worked together to save lives. They didn't argue about the heat, they saw the need, they recognized the urgency and they moved together to get the job done. These are remarkable examples for all of us. We acknowledge the value of dissension for it inspires a healthy debate. But dissension for dissension's sake will benefit no one. Let's find common ground to serve our Territory collectively.

These last two years have been quite an exceptional journey for me and I remain honored to serve as your Chief Executive. We have moved from the brink of fiscal collapse; that included poor Government services and the low morale of our public employees. Tonight, I have outlined major financial, managerial and infrastructure improvements to be implemented. I have presented to you tremendous new positive opportunities for all of our people, *if* we do what is required.

Change is never easy and whether it is giving up plastic bags or making hard decisions to improve our financial condition; there will always be dissent.

Lt. Governor Potter, our cabinet and I, as well as many of you in this body, have worked hard to improve what is working and do away with what is not. Yes, to be sure, we have our challenges, but we have delivered many marked successes. As it is often said – we must not look at adversity as a cause for despair, but rather as a call to action.

As your Chief Executive, I call the Legislature to action. I call upon you to pass the laws and authorize the revenues that will allow us to sustain and implement monumental environmental reforms and reduce litter. I call upon you to work with this Administration to address the necessary reforms to GERS. Most

importantly, I call upon you to support the legislation necessary to address our long standing structural deficits once and for all. Save our community from the negative consequences of inaction!

Last year, I reminded this body that change requires courage. I need and I am asking for the support of the 32nd Legislature, the support of courageous leaders, so that we may move forward. I need the support and prayers of our populace. Together, as a united Virgin Islands, we can move forward. We need not agree on every issue, but we must agree that the people of our beloved Territory deserve more and we must strive each day to improve the quality of life for all who live here.

For me, this time is truly a Tale of Two Cities, a story of two realities.

“It is the best of times, it is the worst of times, it is the age of wisdom, and an age of foolishness. . .it is the season of Light, it is the season of Darkness, it is the spring of hope, it is the Winter of despair; we have everything before us, we have nothing before us . . .”

Despite our current challenges, I am so hopeful for the future of these islands. We are truly beginning to achieve great things and we stand at a fork in the road. So we must decide which reality we want to charter. Now is the time that we must decide whether to believe in ourselves and in our capacity to be better and to do better. Tonight I pledge to continue on the road towards

prosperity, to a brighter future for our Territory. I invite you to join with me and others who have the courage to do what is necessary to right our ship of state.

As Dickens wrote, *“I see a beautiful city and a brilliant people rising from the abyss. . .”*

So do I!

I thank you and all the people of the Virgin Islands for your continued efforts, good wishes, prayers and support. May God Bless the United States Virgin Islands and the United States of America.