

VIRGIN ISLANDS PORT AUTHORITY

Gateways to the USVI Economy

Fiscal Year 2019 Budget Testimony



Submitted to:

The 32nd Legislature of the United States Virgin Islands
Committee on Finance
The Honorable Senator Kurt Violet, Chairman

Submitted by:

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Earl B. Ottley Legislative Hall
St. Thomas, U.S. Virgin Islands

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Good morning Honorable Senator Kurt Violet, Chairman of the Committee on Finance of the 32nd Legislature of the US Virgin Islands; other distinguished members of the Committee and other senators in attendance; the Legislative staff and to the listening and viewing audience. Thank you for your invitation to present VIPA's Fiscal Year 2019 Operation and Capital Budget. Unfortunately, I am out of the territory on official Port Authority business. As I had informed this body earlier in the year, the European-based cruise lines and the Ports of the Virgin Islands task force is scheduled to meet this week to explore new business opportunities for the USVI. VIPA's Assistant Executive Director/Director of Engineering, Mr. Damian Cartwright, will present this testimony on my behalf.

This presentation includes a synopsis of VIPA's renewed mandate, funding sources, recent accomplishments and the Authority's vision for the future. Please note that the Fiscal Year 2019 budget has not yet been approved by our Board of Governors. Formal acceptance of the budget is on the board's agenda for its meeting scheduled for September 26, 2018 on St. Croix.

Members of VIPA's senior management team present today are:

1. Acting Chief Financial Officer Ms. Anise Hodge;
2. Financial Analyst Mr. Humphrey Caswell
3. Legal Counsel Attorney Catherine Hendry;
4. Property Manager Ms. Deborah Washington;
5. Acting St. Thomas/St. John District Marine Manager Mr. Angelo Raimondi;
6. St. Croix District Marine Manager Mr. Mervyn Constantine;
7. Chief of Staff Ms. Julice Harley

About the VI Port Authority

For the benefit of the listening public, I will summarize the mandate and mission of the VI Port Authority. VIPA owns and manages the two airports and most of the public seaports in the US Virgin Islands. Development of the territory's port infrastructure is one of our primary mandates. Our objective is to re-focus the Authority's approach to facilitate travel, commerce and aid in fostering tourism and economic growth by providing more modernized and technologically structured ports of call for both air and sea travel.

VIPA both directly and indirectly provides employment opportunities for hundreds of Virgin Island residents via the operations at our air and seaport facilities. New construction and major maintenance projects contribute to the territory's economy through employment and corresponding tax contributions to the Government of the Virgin Islands' (GVI) treasury.

VIPA is an autonomous, self-sustaining agency and does not receive an annual allotment from the GVI. The primary sources of the Authority's operating revenues are customer and rental fees charged to users of our airport and marine facilities. Other funding sources include federal grants, federally-approved Passenger Facility Charges (PFCs), and special allotments for a specific project provided by the GVI.

Fiscal Year 2018 – Rebuilding Our Ports

The hurricanes of 2017 September 6th and September 19th adversely impacted 85-90% of the Authority's infrastructure. These tremendous losses have affected the Port Authority financially and delayed the progress of ongoing and future capital improvements. With a major portion of the Authority's facilities located on or near the coastline, the resulting effect is an estimated **\$85 million in hurricane-related damage**. Despite such damage, most ports were reopened either immediately or shortly after the storms passed, to enable emergency personnel and relief supplies to arrive into the territory. Commercial travel and commerce within the US Virgin Islands resumed in record time.

Accomplishments

Fiscal Year 2018 consisted of aggressive rebuilding and restoration of our air and seaports. The Port Authority's board competitively selected LEMARTEC, Inc. as the Construction Manager at Risk for restoration work of its affected properties. Admittedly while slow in progress, construction work is ongoing simultaneously at various facilities. Staff continues to work closely with LEMARTEC to address pace issues. Additionally, with the required approvals from our insurance companies, VIPA has contracted with several local firms directly to work on restoration projects.

Aviation – St. Thomas

CEKA was the most severely damaged VIPA-owned facility. The entire roofing membrane was destroyed along with breeches to several windows, which led to extensive flooding and destruction of property. With the entire second floor rendered unusable, all the associated airport operations had to be relocated to an already space-deprived first floor. Despite the challenges, VIPA reopened CEKA to limited commercial traffic on September 28, 2017 – just nine days after the passing of Maria. This was a remarkable accomplishment given the degree of damages sustained, and the federal mandates for pre-cleared air travel. Apart from one gate, the terminal was fully reopened in December 2017 as mold remediation and temporary repairs were completed. The last remaining inoperable gate (Gate 5) will be opened by September 30, 2018.



The entire roof of the CEKA Terminal is being replaced, with expected completion by November 2018.

Seventy percent of the Cyril E. King Airport Terminal's roof replacement is completed, and the whole roof has been "buttoned in" to prevent further water intrusion. The entire 240,000-square-foot roof is being upgraded to a stronger metal and two-ply membrane system. This portion of the repair project is scheduled for completion this November. As the terminal's roof repairs are

completed, travelers will begin to see significant aesthetic improvements made to the terminal's interior areas – including the ceiling and gate areas. Other ongoing and upcoming improvements include the following:

- The public-address system is being expanded and upgraded to provide airline employees with the ability to communicate with their passengers throughout the terminal.
- VIPA's air conditioning contractor has commenced repairs to the air handling system and anticipates completion by October 2018 (pending on-island delivery of materials).
- Gate 5's pavement reconstruction will begin the first quarter of FY 19.
- Installation of a new chiller system; new commuter baggage belts; expanded TSA checkpoint queuing area; renovated and expanded restroom facilities; new ticketing counters and millwork; all new flooring; and new exterior and interior painting.



Now that the CEKA Terminal roof is almost completed, travelers will notice a significant improvement to the appearance of the interior of the terminal in the upcoming weeks.

Aviation – St. Croix

Henry E. Rohlsen Airport on St. Croix reopened to commercial traffic on October 5, 2017. The terminal's roofing membrane was severely damaged by Hurricane Maria which resulted in significant water intrusion. The permanent roof repairs have begun and will be completed by the end of this year. The HERA cargo facility is currently under design and will be ready to bid by the end of FY19's first quarter.

The new HERA fire station is currently operational.



The damaged roof of the new HERA ARFF building has been completely replaced.

Airport Modernization

Prior to the hurricanes last year, VIPA was exploring options in tandem with the GVI to renovate and expand both the Cyril E. King and Henry E. Rohlsen Airport Terminals. With new federal requirements for passenger screening, technology advanced baggage handling systems and major capacity issues, these projects are necessary for the USVI to remain regionally competitive in the land-based tourism sector. VIPA hosted design charrettes in June and August for the CEKA and HERA terminals respectively to receive public comment on the proposed expansion plans. Fortunately, as a result of the storms, federal funding has become available to ensure that these projects will become a reality in the very near future.



Proposed Terminal Modernization - CEKA Airport



Proposed Terminal Modernization - HERA Airport

Our terminals are the gateway to our community and serve as a prime location to highlight our local arts and the rich culture and history of the US Virgin Islands. Towards that end, VIPA will continue to work closely with the Department of Tourism and local historical commissions to install art and cultural displays throughout its airports and seaport facilities.

Non-Aeronautical and Other Aviation Properties

- **Bournefield:** VIPA has completed initial assessments of the Bournefield Housing Community on St. Thomas and continues to make repairs as requested by the tenants. However, as stated in the past, VIPA will divest itself of the “housing property owner” moniker and use the property for expansion of the aviation needs associated with the ever-growing needs of CEKA.
- **The Lindbergh Bay Park on St. Thomas** has been completely cleared of all debris and new playground equipment is expected to be installed by the end of the year.
- **The former Island Beachcomber Hotel** is scheduled for demolition immediately after completion of the asbestos remediation project which is currently underway. Once demolition is complete, the developer under contract will be expected to immediately commence construction of a new hotel in the location.
- **A state-of-the-art general aviation hangar** to serve high-end airport clients visiting St. Thomas is currently under construction. At the same time, the developer is erecting a new maintenance facility for use by VIPA's maintenance personnel. Both buildings are scheduled for completion in April 2019.

Cruise Ports – St. Thomas and St. Croix

The Crown Bay Center at the Austin “Babe” Monsanto Marine Terminal sustained mainly roof damage from the storms, which resulted in significant water intrusion. Fast-paced repairs allowed the facility to welcome the Adventure of the Seas on November 10, 2017 as the first ship back to the port after the passing of both hurricanes. The Center is fully operational, and we continue to make other necessary repairs.

VIPA has completed its study for a third berth in the Charlotte Amalie harbor and presented its findings to the Florida-Caribbean Cruise Association (F-CCA). Along with feedback from the organization and the Governor's Cruise Ship Task Force, the Long Bay site has been mutually decided on as the location for the additional berth(s). In addition, VIPA has authorized its marine consultant to undertake a complete masterplan redevelopment of the Crown Bay and Sub-Base District, to determine a best-use policy for development of the real properties in the immediate area. This development will complement and not compete with the retail facility of the Havensight Mall.

The Ann E. Abramson Marine Facility in Frederiksted, St. Croix welcomed its first ship since the storms, the Viking of the Seas, on November 15, 2017. This facility sustained extensive damage to the catwalk mooring extension which was unusable after the storm. Improvements to the lighting at the pier has also been completed. Hurricane Maria destroyed the remnants of the dilapidated south tender pier. VIPA is still awaiting approval from the US Army Corp of Engineers to construct a replacement tender pier. The permit approval is expected before the end of this year.



The catwalk at the pier in Frederiksted was repaired after the storms

Cargo and Ferry Seaports – St. Thomas and St. John

The two-story parking garage at the **Urman V. Fredericks Terminal at Red Hook** that was under construction prior to the storms sustained extensive damage to in-place elements of the new construction. Construction has resumed with anticipated completion in December 2018. Fortunately, the passenger terminal in Red Hook did not sustain any extensive damage.



The Red Hook two-level parking garage should be completed by December 2018.

Both the US Customs and Border Protection (CBP) Building and VIPA Administrative offices at the **Victor Sewer Marine Facility, Cruz Bay, St. John ("The Creek")** were destroyed. In the interim, VIPA has built a temporary CBP checkpoint inside the Urman Fredericks Marine Terminal in Red Hook. Passenger ferries arriving from foreign ports can now clear Customs in Red Hook instead of traveling to downtown Charlotte Amalie at the Edward Blyden Terminal. This time-saving amenity has improved the passengers' experience between the USVI and the British Virgin Islands.

CBP is also providing Customs services for private pleasure boats at The Creek in St. John to accommodate the charter industry. Design and permitting of the new facility has been completed, with the replacement building being accomplished under the LEMARTEC contract.



The U.S. Customs Facility in Cruz Bay was completely destroyed. A temporary trailer now houses the CBP operation at the Victor Sewer Facility with a permanent replacement expected in April 2019.

The Theovald Moorehead Facility at Enighed Pond sustained some damages but is now fully operational. This port has been a critical entryway for the community on St. John to transport vehicles and bring much needed rebuilding supplies. VIPA is currently working on repairs and upgrades to the restrooms at this facility, which will be completed in the very near future.

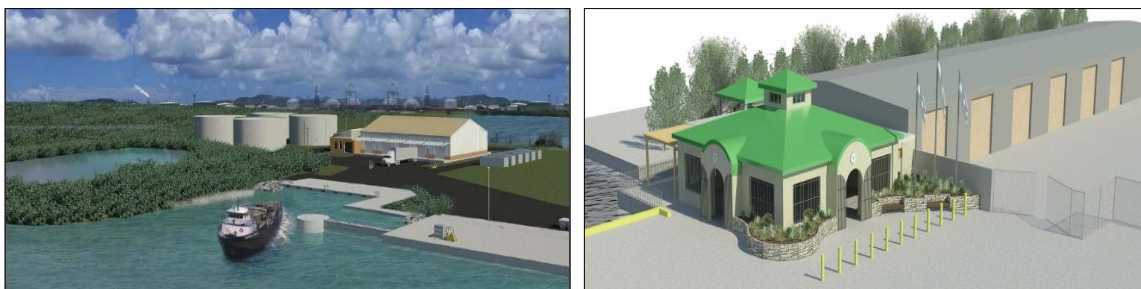
The Edward Blyden Terminal on the Charlotte Amalie Waterfront was undergoing some improvements prior to the storms. The new elevator has been installed, finally bringing the terminal into compliance with the requirements of the American with Disabilities Act. A structural analysis to the building's steel elements is currently underway, and refurbishment to the passenger waiting and the federal inspection services areas are also under review.

The seaplane facilities on St. Thomas and St. Croix are being redesigned by the local architectural firm, Jaredian Design Group. VIPA has applied for construction funding from federal agencies.

Cargo and Ferry Seaports – St. Croix

Construction of the \$13 million in improvements to the **Gordon A. Finch Molasses Pier**, funded by a TIGER-grant, has been delayed by the winning bidder's inability to secure the required local contractor's license. As a result, MARAD, the federal funding agency, has approved a requested completion date extension. The project will be re-bid to retain a fully qualified firm.

The Gallows Bay Marine Facility on St. Croix is being transformed into a passenger and luxury vessel seaport. The construction of a new dual-purpose passenger facility is currently underway and is scheduled for completion in May 2019.



Conceptual renderings of the Gordon A. Finch Molasses Pier Project (left) and the Gallows Bay Marine Terminal.

The Wilfred “Bomba” Allick Container Port’s cargo and office building was completely destroyed by Hurricane Maria. A new building is currently under design with a target bid date in the first quarter of FY19.



A new building is being designed to replace the destroyed cargo and office building at the Containerport.

Pilot Boats

VIPA has deployed a new \$425,000 security boat to be used in the St. Thomas/St. John District. Additionally, VIPA recently took delivery and launched a new \$1.2 million pilot boat for the St. Thomas/St. John District.



St. Croix currently has two pilot boats. The Larry Finch II is scheduled to be retrofitted with upgraded engines. A complete overhaul of the Claude Berry vessel is planned, and specifications are being developed for a new pilot boat for St. Croix. The estimated cost of the new vessel is \$800,000 and a funding source is yet to be identified.

Air and Cruise Traffic – Post Hurricanes Irma and Maria

	<i>Actuals</i>					<i>Estimated</i>	<i>Budget</i>
	<i>FY2013</i>	<i>FY2014</i>	<i>FY2015</i>	<i>FY2016</i>	<i>FY2017</i>	<i>FY2018</i>	<i>FY2019</i>
Cruise	1,923,671	2,033,754	1,960,066	1,905,115	1,552,115	1,149,536	1,771,197
Air	880,907	910,533	950,001	972,908	956,620	501,512	700,000

Aviation Traffic

Since the hurricanes, scheduled air carrier service has slowly but steadily increased. While the impact on air service to St. Croix did not decrease significantly, service to St. Thomas has suffered mainly due to reduction in the district's hotel room inventory. Many of the major hotels are still closed pending hurricane related repairs. The decreased air traffic in FY 2018 is also correlated to the months immediately following the storms (September to December) when commercial flights to St. Thomas were limited.

Despite these challenges, several airlines added new routes or new service in calendar year 2018. In February, JetBlue Airways began a second daily flight from San Juan to St. Thomas and provided daily options between Boston and St. Thomas via San Juan. Spirit Airlines increased its Fort Lauderdale to St. Thomas frequency to daily in March along with announced service to Orlando from St. Thomas in November, and Delta Air Lines reinstated its daily New York service in May. In July, LIAT returned to St. Thomas and provides round trip services to Antigua three times a week.

Efforts to increase airlift to the territory are ongoing. The Governing Board recently approved an extension of the airline incentive which provides reduced fees for airlines starting new or increased service to the Territory. Additionally, airlines serving St. Thomas can receive added discounts by arriving and departing during non-peak hours.

Cruise Traffic

The outlook of the USVI tourism industry continues to be positive. With a considerable number of new and larger vessels scheduled for delivery to all of the lines within the next 3 years, an increase in calls is anticipated. However, to remain competitive, our islands must refresh its tour offerings. Industry experts continue to stress that many of today's cruise passengers seek "experiences" as opposed to just shopping. In recognition of this new paradigm, several neighboring destinations along with the USVI, have formed a regional working group with the assistance of F-CCA. Since no one port is the sole destination on an itinerary, the group collaborates on how experiences throughout the entire itinerary are rewarding.

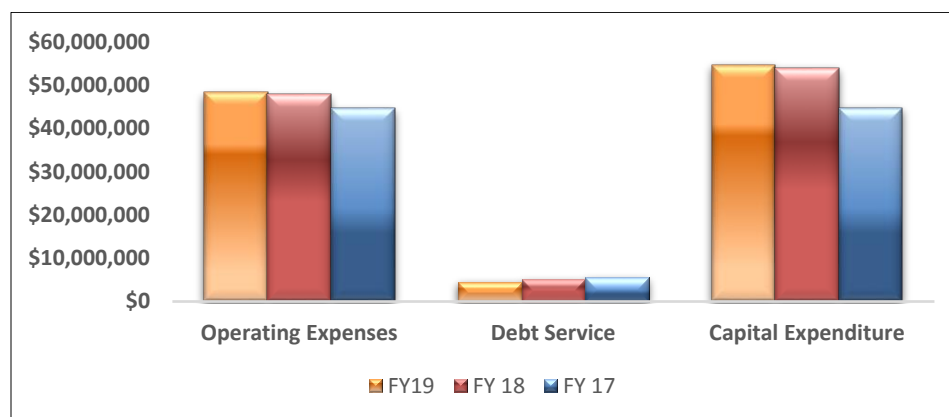
The implementation of the Harbor Hopper service affords passengers the opportunity to move about downtown Charlotte Amalie more freely and alleviates traffic congestion, which is a noted negative for residents in any community. VIPA will continue to work with the public and private sector to discuss the development of new attractions to ensure that the USVI remains regionally competitive.

Looking Forward - Fiscal Year 2019 Budget

The FY 2019 budget anticipates a 1% increase over FY 2018 budget. Operating expenses are at \$48.2 million excluding depreciation of \$19.1 million. Debt services and capital projects expenditures are \$4.6 million and \$54.5 million respectively, resulting in a total projected outlay of **\$107.3 million**. The budget will be funded by:

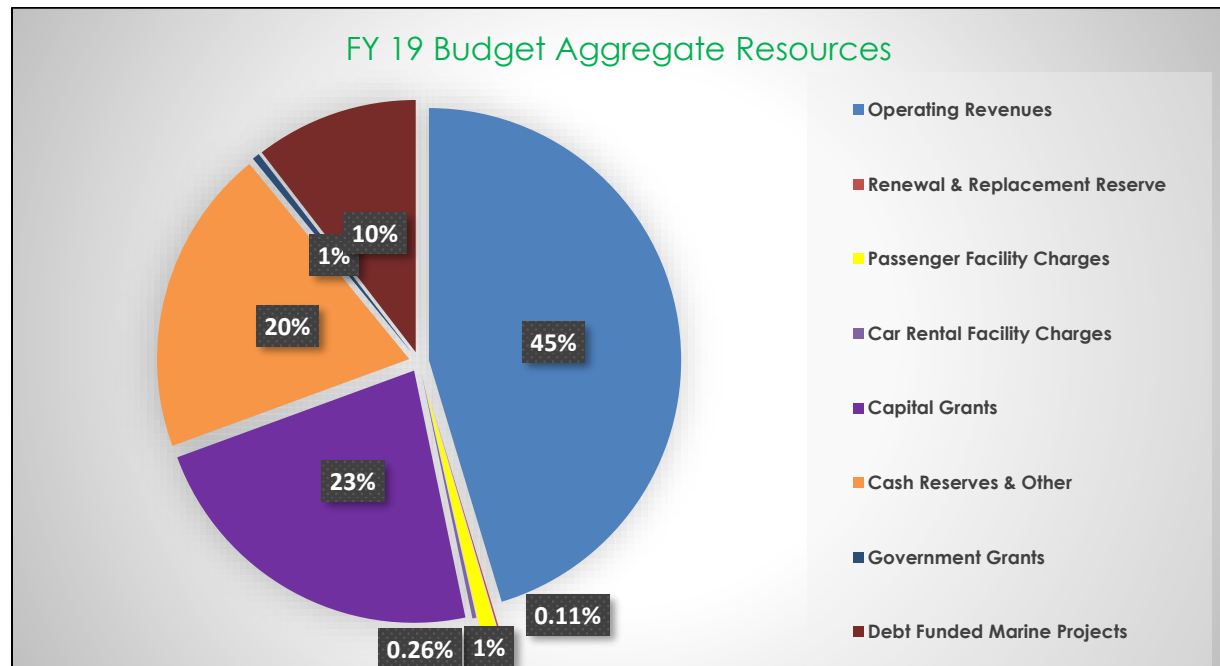
- \$48.7 million in projected revenues derived from operating fees and charges;
- \$1.1 million from passenger facility charges;
- \$21.1 million from cash revenue and other;
- \$274K from car rental facility charges;
- \$24.3 million from capital grants;
- \$121K from renewal and replacement funds;
- \$500K from government grants; and
- \$11.2 million from bond proceeds.

FY 2019 Budget Overview



FY 2019 Projected Expenses

	Budget FY 2019	Budget FY2018	% Change
Operating Expenses			
Payroll Expenses	\$ 27,372,327	\$ 26,946,027	1.6%
Maintenance Expenses	2,551,000	2,698,800	-5.5%
Materials & Supplies	1,322,300	1,366,500	-3.2%
Utilities	6,156,449	6,156,449	0.0%
Professional & Other Services	4,959,000	4,732,000	4.8%
Travel & Other Expenses	594,500	507,700	17.1%
Insurance	4,027,507	4,027,507	0.0%
Other Expenses	1,210,500	1,330,500	-9.0%
Total Operating Expenses	\$ 48,193,583	\$ 47,765,483	0.90%



Pending Permits for Port Developments

Permit approval continues to be a challenge for the Port Authority. We currently have several outstanding permits that require local and federal approval so that port developments can move forward.

ST. THOMAS/ST. JOHN PROJECTS	US ARMY CORP OF ENGINEERS STATUS
Red Hook US Customs Facility Building & Construction of New Dock SAJ 2016-01397 (SP-JCM)	April 2016. Additional information requested in Feb. 2017. CZM permit approved on Feb 23, 2017. VIPA submitted responses to ACE in April 2017. Received correspondence on March 13, 2018 of the ACE intent to issue a permit, pending a copy of the approved CZM permit. VIPA is awaiting CZM to provide an executed copy of the permit.
ST. CROIX PROJECTS	US ARMY CORP OF ENGINEERS STATUS
Ann E. Abramson Marine Facility Tender Pier Repairs (Frederiksted) SAJ 2015-02727 (SP-JMS)	September 2015. Additional information requested and submitted: Dec. 2015, June 24, 2016 and Dec. 9, 2016. Received correspondence on February 16, 2018 of the ACE intent to issue a permit, pending a modification to language in the approved CZM permit to match the ACE permit. VIPA is impressing upon CZM to revise this language and submit to the ACE as soon as possible.
Schooner Bay Channel Dredging (Christiansted) SAJ 1986-00535 (IP-JMS)	December 2014. Additional information requested and submitted July 29, 2016 and Nov. 3, 2016. Most recent supplemental information submitted to the ACE on August 16, 2017. VIPA had a teleconference with the ACE on August 17, 2018 regarding the project status. VIPA recently received an email correspondence on Sept. 9, 2018 requesting additional information on the environmental mitigation. VIPA will have a response to the ACE before Sept. 28, 2018.

The Port Authority has also applied to the Department of Planning and Natural Resources' Coastal Zone Management Commission and the Army Corp of Engineers to dredge 232,000 cubic yards of material from the Charlotte Amalie Harbor. This dredging project is being funded from the Community Development Block Grant issued by the US Department of Housing and Urban Development. The completed project will allow Oasis-class vessels to berth at the West Indian Company Dock in Havensight, St. Thomas.

Aviation Fines

The VI Port Authority has been threatened by the Federal Aviation Administration with a \$1.4 million fine due to various personnel training deficiencies and issues related to the location of the Anguilla Landfill. The issues cited have either been corrected or are being addressed.

Our Employees

Without question, VIPA's employees have been affected by the storms. Through all of their personal issues however, staff have dedicated themselves to their assigned tasks.

Negotiations for new collective bargaining agreements are ongoing. For FY'19, VIPA is hopeful of maintaining total payroll costs to 1.6% over FY 2018. Requests for new hires will be based on the need to ensure operational efficiencies.

In conclusion, would like to thank the travelling public and our community for their patience as we continue to rebuild and restore the gateways to our islands. We are aware that the process has not been an easy one and has been a learning experience for all of us. The Port Authority will continue to provide safe and comfortable facilities to ensure that entrance and departure experiences are as pleasant as possible. Updates on the re-construction progress will continue to be broadcasted via our local news media, posted on our website at www.viport.com, and on our Facebook and Twitter social media pages.

I thank you for the opportunity to share this information with this body, our stakeholders and our community. My colleagues are available to answer any questions that you may have.

Sincerely,

David W. Mapp, Sr.
Executive Director
Virgin Islands Port Authority

cc: VIPA Board of Governors