



— STATE —  
OF THE  
TERRITORY  
2011

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JOHN PERCY de JONGH, JR.  
GOVERNOR

JANUARY 24, 2011

EARLE B. OTTLEY LEGISLATIVE CHAMBERS  
ST. THOMAS, UNITED STATES VIRGIN ISLANDS



2011 STATE OF THE TERRITORY ADDRESS  
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Members of the clergy, Senate President Russell, Honorable Senators, Lieutenant Governor Francis, members of the Judiciary, members of my Cabinet and other agency heads, Mrs. Francis, my wife Cecile, other distinguished guests, ladies and gentlemen, my fellow Virgin Islanders.

It has been my honor for the last four years to stand in this place where so many of the giants of our history have debated, with rigor and conviction, legislation that has provided a platform upon which our Territory could grow in order to make life better for every Virgin Islander; to stand in this place, where governors come each year to report on the past and to set a course for the future, all the while knowing and respecting that to set such a course requires a partnership with the members of this body, and the trust of our community.

But this year is special. This is because it comes after an election. And in this election our voters had a clear choice, and, on all three islands, their voices were heard loud and clear: they selected and supported the path that Greg and I have consistently articulated for this Territory.

I also stand here one year after the devastation visited upon Haiti, little more than a week after President Obama brought healing to our country after the shootings in Tucson, and one week after we celebrated the life of Dr. Martin Luther King, Jr., whose life was taken because he had a dream, and because of that dream we are today a better country and nation.

It is in this spirit that tonight we also remember the service of our sons and daughters, our brothers and sisters, our fellow Virgin Islanders, stationed around the globe as members of the United States Armed Forces. We know that the freedoms we have, the chance to achieve the ambitions we seek to fulfill each day, are ours due to the service of these men and women who, in our volunteer forces, are making sacrifices for the greater good of country and not self.

Again, as in years past, we pay our respects to those Virgin Islanders who lost their lives in the defense of our nation and our Territory. Each day we must show our support for their families and for the sacrifice of their loved ones.

To all in this chamber, and throughout our Territory, regardless of your political leanings or preferences, or how we have worked together in the past, tonight I pledge my redoubled efforts to work together with you to do the people's business, to take the steps necessary each and every day to make our politics more collegial and more effective. We will put on the shelf all the divisions, petty or otherwise, that divide us, for the challenges we face are too great -- and the consequences of failure too dire -- if we fail to see, to understand and to respond to them.

Unlike each of my earlier State of the Territory speeches in which I have attempted a wide-ranging review of where we are, where we are headed and how best to get there, tonight I shall be far more focused and far more direct.

Rest assured that we continue to work on the many responsibilities that this government, and my Administration, have to this community. Rebuilding and repairing our roads; getting more of our people into their own homes through the affordable housing programs of the Virgin Islands Housing Finance Authority and Virgin Islands Housing Authority, and securing local control of the Housing Authority; continuing our efforts in Washington to resolve tax issues with the U.S. Department of Treasury and the Internal Revenue Service; addressing the needs of those in our community who are homeless and those diagnosed with mental illnesses; and enforcing our environmental laws.

But tonight I will speak instead, of changes that we must quickly embrace, not just in what we do, but in how we do it. Changes in attitude and approach. Dramatic and different ways of going about the business the people have sent us here to do; and dramatic and different ways of thinking not only about what we can do, but what we must do.

This may sound like nothing new. You have heard me speak of the challenges we are facing during the past four years and during the recent campaign. But the passage of time has not lessened many of these challenges. And so this evening is a time for speaking truths -- very hard truths -- to each other, to all of our residents, to our business community and their employees, to our government workers. To all who care deeply about our community and about our future, our future together.

Despite all our efforts, despite all the progress we have made working together, there is much more to be done and it needs to be done now. We must finally face problems that have been made worse by the crushing effects of the global financial crisis and the Great Recession that has so damaged our economy, and which now require us to act decisively and quickly.

During the first few decades of our political development, government in the Territory was the vehicle for the creation of the middle class, and Virgin Islanders and their families were the beneficiaries of that time and that opportunity. In partnership with the United States government, the Territorial government lifted our people up, and together they were the architects and the builders of our prosperity.

But this is a new century, with new rules and new realities that function in a world without borders. Across the globe we see that all nations and communities must compete on a global platform. If the wealth and prosperity of a community or nation is to grow, that growth comes first from a vibrant private sector aided by and working in tandem with its government, not in spite of its government. This is the new reality that has been and is being embraced worldwide.

And unlike years past, the first and most important duty of our government today must be to create the foundation and support for such an economy. We must, first and foremost, create an environment that provides sound and clear rules, and ensures that government is a partner, not an obstacle. Ours must be a government that treats people and businesses fairly, that respects leadership and entrepreneurship. If we fail in this, we lose not only an opportunity, we lose not just the resources that support so many of our critical services, but indeed we will lose our aspirations, and our future prosperity will be forfeit.

We cannot continue to act as if the purpose of government is government.

We can no longer deceive ourselves. Because, if we do not fix that which lies broken before us, if we do not rise to this challenge for our people and our Territory, let no one in this chamber be fooled: our financial condition will only deteriorate and the opportunity to build a vibrant economy that provides opportunities to the ambitious, support for those that require special attention, and a future for our children, will pass us by.

Ensuring the continuing viability of our home through the greatest economic catastrophe in nearly a century was critical to our future and to preventing a broader economic collapse. So, as our economy and revenues lay in tatters, and the need for social and public services remained, we took actions in partnership with many of you in this Legislature. We did what was needed in order to keep our people working.

I chose to act because it was critical that we protect our community as best we could from the extreme impact of the recession, which left our General Fund revenues off by 30% from 2008 levels for two years in a row. This loss of over half a billion dollars was only partially offset by federal stimulus efforts. Over the past three years, even after federal support, the \$660 million budget shortfall created by the Great Recession over a three-year period totaled almost 60% of the total salaries paid by our government over that same period of time.

There were those who opposed our strategic partnerships. There were those who opposed our steps to borrow against our future revenues. But it is now clear to all that if we had not taken the actions we did, the effects on our local economy would have been even more catastrophic.

The arithmetic is quite simple. At that time, no layoffs or furloughs could have closed that budget gap -- short of sending half of our government workers home and closing shop on over a third of our social programs.

So I chose to act. Now, however, you and I must face the dispiriting truth that by keeping our people at work, far too many believe that I have proved the point that in a crisis, something will always bail us out. Far too many people still fail to grasp the magnitude of the financial storm that continues to whirl around us, and the devastation, the debris, the damage it has caused.

To those who continue to doubt that a crisis is still upon us, I say just look around you. Across our economy, the deep pain of economic misfortune is still being felt. The searing reality of the challenge that lies before us is evident in a hotel industry that has cut back by twenty to thirty percent in staffing levels, as room rates have declined precipitously. It is also evident in twenty percent job losses in wholesale distribution and construction, a fifty percent decline in convention and meeting business, and severe losses in our critical retail sector.

Now, as the national economy slowly recovers, we have no choice but to tackle our deeper problems. We must -- together -- embrace the challenge of transforming our community and the underpinnings of our economy in order to defend the prosperity that we have achieved over past decades, and to build the future that we need and must reach, not just for ourselves, but, more importantly, for our children.

To transform our economy we must understand the urgency of this moment and begin by changing how we view the world around us.

Our government cannot survive in its present form and on its present track. We do not have the money to keep it going as it is, and the vast majority of those who pay for it will not continue to pay through their taxes for something they know to be wrong and unsustainable. We have weathered the downturn by a successful program of borrowing that cannot be continued. As things recover, we cannot get up from our economic sick bed and go back to doing things as we have done them in the past.

So, if forced to put words to it -- to answer the traditional question: What is the State of the Territory? -- I would suggest that our Territory is at the "tipping point."

We are facing that moment when we shall either make the necessary changes to ensure the health, well-being, and future prosperity of our Territory, or the external conditions and outside forces as they are shall determine the future for us and very likely set us, and our children, back for generations to come.

What I am speaking of requires that we change how we think about our problems, how we develop solutions to those problems, and how we change as well our attitudes and our expectations. For far too long we have allowed the politics of accommodation to influence our decision-making on public policy and private sector initiatives, on student expectations and teacher responsibilities, on development of housing, healthcare and other social programs to assist those most in need.

During the decades that this has been going on, Virgin Islanders have seen the private sector grow and thrive by and large owned and controlled by those who have come here, seen the opportunities, taken the risks, and reaped the rewards. We were not kept out; we chose, for the most part, not to get in to the private sector. We no longer have this luxury, we must ensure that the vast majority of the children born in these islands can actually reap the advantages of free enterprise for themselves.

And don't point me to examples of some of our local success stories; I applaud them just as do you. But let me point you to those hundreds upon hundreds who lack the skills and the attitudes, the work ethic and the discipline, that will let them compete successfully -- here or abroad -- in the new economies of a globally-connected marketplace that is equally competitive, but truly rewarding.

This, simply stated, is the truth that we must embrace: Education is step one; attitude as well. Ambition and perseverance will carry us forward.

What needs to change is our attitude of acceptance and reluctance: an acceptance of what we know in our hearts and minds is not the way things should be, and a reluctance to take the risks of trying to make things better by trying something different. We must build and support an entrepreneurial, adaptable economy as the bedrock of our future.

So where do we begin? We must first and foremost focus on what we already have begun and what we know must be continued. Priorities need not be changed, performance is what must change, attitudes must change. The education of our children must be done better. The growth of our economy must be accelerated and facilitated. And the protection of our people against those who would seek to live outside our laws must be enhanced.

None of this is new. What must be new and different is how we go about it, and how we make the government that is charged with achieving these priorities more efficient and less wasteful.

And this we must do with enthusiasm -- and here is where it all comes full circle -- as every single government worker must come to understand that they are building the future upon which our success and their own retirement security depends.

So I will say again tonight what I have said before: to build a sound economy we must assure a safe environment; educate our people to get a job and seize opportunities; and make sure there are jobs and opportunities for them.



We must address each of these. We must address simple things like permitting, and tougher ones like education. But I tell you this: four years from now, I am going to pass the baton to the next Governor knowing we have done everything we can do to build a vital and vibrant future for our people.

In the area of education, I believe we have made strides. We have seen a continued increase in the Annual Yearly Progress of our schools. Additionally, we have significantly reduced the amount of federal funding that has too often in the past been returned due to lack of execution. While these are positive steps they are by no means enough to satisfy me when it comes to the future of our children.

This year 19 schools made AYP. This is six more schools than last year. We are proud of this accomplishment, but more importantly, we still have six schools that have never met AYP -- a cause for concern. For those schools that repeatedly fail to meet the minimum standards, we will execute turnaround strategies to change the status quo. This will require a change in staff, a change in leadership and a change in approaches to teaching.

So, what I want to focus on tonight is what we must do in our public schools so that when our children get to school, all is in place to help them succeed.

It is my pleasure to introduce to you and congratulate our Teachers of the Year who are here with us tonight. Kathleen Plaskett of Evelyn Williams Elementary School on St. Croix and Daniela Roumou of Lockhart Elementary School on St. Thomas, who is also our Territorial Teacher of the Year. Please join me in thanking them for their work on behalf of our children and our future.

Thank you.

Our goal must be nothing less than to raise the quality of all of our teachers to their standards of excellence. Indeed my hope and expectation is that even as these fine teachers continue to improve their skills, and as they get ever better results from their students, the level of all our teachers will rise.

We must hold educators accountable for the success of our students. We must reward excellence and remove those who want to maintain the status quo. For those who need more training and more assistance, that we must and shall provide. But those who cannot or will not meet or exceed our standards will be replaced. We must make a place for those coming up who have the skills and the desire to do this most important of jobs.

The simple truth is that every year that a sub-standard teacher is taking the place of a better teacher is a year when the children in that classroom are being short changed. And changing that is a change we must make.

We must embrace the value of an education and acknowledge that the artificial limitation on the school year is hurting our children. Our limited school year -- a relic from an era gone by -- must be lengthened. We are well-prepared for this new environment as we have invested in our school facilities, expanded after-school programs, and have consistently invested in teacher development and training. It is time that we focus our investment on our children.

And our commitment to our children is starting early, with the revamping of early childhood education. We have already approved and are implementing early learning guidelines, and within a month I will approve new childcare rules and regulations. And later this year, we will implement a new quality rating improvement system for our childcare and development centers so that parents are better informed on the choices they have for their children, and centers are supported in their efforts to achieve higher quality.

We are concentrating our focus on ensuring our children are ready for kindergarten, as the best time to address many of our social problems -- from school dropouts to teenage pregnancy to bullying and youth violence -- is before children enter school. Within all of this, we are more than ever committed to ensuring that our special needs students, and their parents, receive the support and services that they need and that we are required to provide them.

And we must do all of this because, one thing is certain: if we continue to allow failure, if we continue to do things the way we are doing them now, our future and our children's future will be limited and crime will be high.

And when it comes to public safety, we will continue to take every possible step to curtail the rash of violent crime that continues to plague our community. We will continue to make sure our police officers are visible, accessible, and responsive; educate our parents and our children about criminal activity and gang influences; and prosecute to the fullest those who do wrong. We are doing this, but there is more we will do.

When you analyze our crime statistics, including homicides and murder, you find that in the last four years, and I would suspect even earlier, that a significant number of our homicides and murders were committed by those younger than 24 years old, and that most were at one time or another part of our juvenile justice system or a person of interest to law enforcement.

We have no alternative but to tap into the mind-set, to understand the thinking of our young people -- what drives them, what motivates them, which vein can we tap into to unleash their creativity and innovation. So, from advanced placement courses to drop-out prevention efforts, from more varied scholarship programs and athletic events to Jobs for America's Graduates and YouthNet programs, we have taken a comprehensive approach to build interest, maintain interest and foster initiative. With the Workforce Investment Board and Career Technical Division at the Department of Education, we are ensuring that our young people are trained for the jobs that drive our economy. In the last year, we have had training programs and job opportunities for those in green technology, heavy equipment and the marine field. We have expanded the range to include training and opportunities in technology and broadband and healthcare.

And we must press ahead in our efforts to address family violence and domestic abuse, from which much of the violence we see in the streets is born. This we are doing by having developed and now implementing a collaborative agenda and protocols for use by our police, our prosecutors, our social workers.

But let me be clear, I know, and you know, that the best antidote to crime is families. Parents and caregivers raising their children with the values we cherish; fulfilling their basic obligations: knowing where their children are, knowing who their children are hanging out with, teaching their children to take responsibility for themselves and to respect others. Showing them the path and keeping them on it.

At the end of the day, government can only do so much, and the choice for each child is either education or incarceration. This is the harsh reality that each family must recognize.

In the area of law enforcement, we know what we have to do because we have been doing it. We continue to develop and strengthen our police force by recruiting officers, be they trained here or recruited from away, and by broadening their professional training; by purging those that bring shame to the department and do wrong in our community. And we shall redouble our efforts in this regard. And we have made a number of changes of personnel in the Department of Justice as we seek to improve performance by our Assistant Attorneys General and improvements in the support they are provided so they can do a better job and work more effectively.

I have spoken on too many occasions following horrific crimes that have beset our community, and I repeat here what I have said before: we must persevere in our efforts. We must increase our emphasis on those anti-crime initiatives that have produced favorable results.

And our results are improving. Our clearance rate in homicide cases is now over sixty-five per cent, above the national average, and it is continuing to improve. Our police are reacting far more quickly to the increased information they are getting from the community. It is the execution of those anti-crime measures that work -- such as saturated patrols in high crime areas, roadblocks, and aggressive targeted enforcement against those who are determined to resolve disputes violently -- even as we continue to invest in our children and make every effort to warn our young people about the dangers of gangs and criminal activity -- that will yield results. It will take time, but we will close the vise from both sides -- and we shall succeed.

I know I speak on behalf of the community when I thank our magistrates and judges for taking steps to never release someone who is re-arrested while out on pre-trial release or pre-sentencing release or on probation without a hearing to determine whether they had violated the terms of their earlier release.

And I have instructed our prosecutors to seek the highest possible bail amounts and the strictest conditions on crimes involving guns, especially unlicensed guns.

Education and public safety are critical elements in creating a thriving economy that offers jobs and opportunities for all. Economic development requires an on-going balancing of interests and indeed, as I referenced earlier tonight, a recalibration of many core policies. I believe that there are far too many areas where the actions -- or worse, inactions -- of government have impeded private business. I also acknowledge that for far too long the private sector has not created, and in some cases hoarded for a select few, the avenues for advancement or the salary scales that would attract our young people or open the doors to those with ambition. The economic transformation I am outlining necessitates a new social and economic compact, a new fairness, a new commitment to true equal opportunity.

The Federal government has seen to it that our business taxes have not increased, but it is a local matter whether or not we are creating an environment conducive to entrepreneurship and investment, to assure that people with ideas and with capital will choose to build their future with us as opposed to anywhere else in the world. And in this I am not speaking of large businesses, but of small and medium sized businesses where I believe we have correctly placed our emphasis and must continue to strengthen our efforts of assistance and facilitation.

I have heard quite clearly the complaints and verified far too many examples of people whose efforts to start a business, expand a business, or even just build a home -- thus providing work for our tradesmen and contractors -- have been held hostage to processes which seem aimed far more at impeding and frustrating development than assisting and facilitating it.

I have made it clear to those in the policy positions at our permitting and licensing agencies that it is unacceptable for employees to overstep and slow down, or worse, stop a person or business wishing to take the legal steps required to get into business, stay in business or have a home. I have made it clear that I expect to see change -- and prompt change -- both in the practices and a significant reduction in the time required.

I want us to achieve a real reduction on the order of no less than a 30% reduction in the time it takes to get through these processes and I want to see such improvement now, in this fiscal year. This must start with the attitudes displayed to the public by those of at our front desks. The performance and the level of assistance of those who meet and greet our residents as they make contact with our government agencies has just got to get better. And only those in government can make this happen.

Much of what needs to change can be done with a change in attitude and an increase in productivity. And where this is not so, and a change of law is required, I assure you we will be back to the Legislature for those changes and your advice.

Just as our efforts to grow the economy require increased speed and efficiency in licensing and permitting, so too does it require that the processes of civil justice not become bogs and mires which do not allow the prompt resolution of disputes or definitions of laws, regulations or contracts. It would be improper for me to address any particular case and I will not do so. But the private sector, including the bar, has felt stymied or hesitant to speak to this issue important as it is.

Cases cannot be permitted to languish for years. Civil matters must be heard and decided, land disputes and estates settled before properties disintegrate. The Magistrates are in place, the Supreme Court established. The Superior Court fully staffed. I urge the judges of all our courts to help us work to a sounder foundation where prompt and predictable process will encourage growth and development.

Among my primary goals was to reinvigorate our critical tourism industry that is central to the quality of economic opportunity for our people. To that end, we have built upon the cruise ship base of St. Thomas and brought cruise ships back to St. Croix on a regular basis. Even in these tough economic times, we have expanded our air service and the capacity of those airlines serving the Territory. But we also recognize that our execution to meet our goals and objectives has to be different and cost-effective; that is why over the last four years we have closed all of our U.S. based tourism offices and transitioned to virtual sales offices with performance goals and sales targets.

We must now adapt our tourism industry and infrastructure to a changing and competitive market landscape. The tourism sector remains the core of our economy and of our future, both in terms of direct employment and because of the wide ranging opportunity it creates for entrepreneurship, for small business development. We face multiple threats to our tourism base, ranging from other ports of call as close as those in the Caribbean to those as far away as the Mediterranean, to Internet sales, which take away our passenger visits and our high-end retail customers.

We are moving quickly to re-develop our transportation systems and address our traffic flow problems. The lackluster performance of the water transportation provided by ferries servicing all of our islands is no longer acceptable. Here, too, we must acknowledge that what we have done in the past is not good enough, and must be expanded, adapted and improved to meet the times. Additionally, in aid of both the quality of life of our residents, as well as to better serve our visitors, we have commenced programs to improve the quality of our historic downtown areas. And in these areas, as elsewhere, our private businesses need to expand, modify and improve our retail offerings and our on-shore activities.

We have commenced the Charlotte Amalie revitalization plan and downtown improvements, are completing the Christiansted Bypass, and will move on to the boardwalk and downtown areas. We have expanded parking in Cruz Bay and will begin work on Frank Powell Park as the gateway to this gem. I plan to submit revisions to our enterprise zone law to expand the zones and the incentives in areas that require attention and where we can foster targeted small business activity.

All these actions, and other economic tools that we anticipate can add further value to our efforts, are being taken, not only to enhance our competitive advantage in a competitive world, but to ignite in our people the entrepreneurial spirit to reap the rewards available here in our home.

We continue to take seriously the need to achieve some level of food security by fostering the relationships and practices that will expand the opportunities for our farmers, and protect the interests of our fishermen, even as the federal government attempts to define and restrict their annual catch limits. While it is unlikely that growth in these two areas can be of a scale that will result in near-term self-sufficiency, it is my belief and our policy that increased support and investment in both farming and fishing will one day put us in a much better position than we are in today.

Much of what must be done to build the foundations of a vibrant economy can only be done through the effective partnership of private enterprise and government. We will look for private partners for new development, new industries and new ventures that will accelerate new job development and rejuvenate our existing economy. Public-private partnerships offer great potential; a chance to do more with less, while achieving shared objectives, and we must adapt ourselves as a government to work more effectively as a partner.

In this regard, I plan to submit shortly to this body for your approval a multi-party, public-private partnership for the development in Frederiksted of a sports and entertainment complex which will have as its anchor a new Paul E. Joseph baseball stadium, and will include nationally sanctioned swimming and tennis facilities, as we further our efforts to support the economic development of St. Croix, and the Territory as a whole.

In the hotel industry as well, I have initiated calls to private investors to take the lead -- to move beyond the promises and the fancy design boards -- and to move some dirt. It is my intention to use the full resources of the government to move forward targeted creditworthy hotel developments as the national and global economy turns back to growth. To the developers of these projects I would say: we have kept our commitment and approved the permits and lent our support at various levels with the federal government, now it is your turn to deliver. Our contractors can no longer live off of government contracts, but must become critical participants in new developments that have long been promised to our community. We are prepared to invest in new projects, but only as co-investors.

I also look to the broadband initiative and the development of the 'middle-mile', as a unique opportunity to achieve industry diversification, new job creation in the technology field, and a golden opportunity for small businesses and community organizations. The broadband project, when completed, and coupled with the offerings of the Research and Technology Park, will result in the modernization of the Territory's overall broadband communications infrastructure, and that will in turn open tremendous possibilities for the creative, the entrepreneurial, the risk-taker. In order to fulfill our potential in this area, we will need the private sector's active participation and engagement. As required by our grantor agency, the U.S. Department of Commerce, this project must be completed by June 2013, with over \$115 million of federal, in-kind and local cash funding.

As we lay 244 miles of new fiber cables connecting over 700 pieces of network equipment, we will provide over 300 construction jobs, and the opportunity for local persons to be trained in fiber splicing and network maintenance. When completed, over 45 public computer centers will be established or renovated with advanced information technology. I shall ask for legislative support to access the capital markets to fund our portion of the broadband initiative.

To date, we have received almost \$300 million of stimulus funding awards, and the broadband initiative is just our latest success. These funds have supported and continue to support the General Fund at a time of severe revenue shortfalls, and the continued expenditure of funds is supporting employment across the Territory even as we meet tonight.

And as part of the on-going program of capital improvements, I will ask you to support the development of a new school on St. John, the replacement of the Addelita Cancryn Junior High School on St. Thomas, and Central High School on St. Croix.

Working together over the past four years, we have broadened the base of our economy, but the real fruits of our labors should be realized in the years ahead, as growth resumes and our tourism, rum and the small business sectors become the cornerstones of economic stability and opportunity.

But as we work towards these long-term goals, we cannot ignore the harsh reality of the present and near-term. We rely primarily on a U.S. economy that has had an unemployment rate above nine percent for twenty straight months, the longest such period in almost a century, and if you count those seeking full-time jobs while working part time and those who have stopped looking altogether, its close to seventeen percent. At the current rate, it is projected that it could be 2017 before the country replaces the more than eight million jobs loss since December 2007. This is the basis of our reality.

For the General Fund and the Government generally, this looms to be a difficult year -- and 2012 will be even more difficult. Across the country, states are dealing with the reality that federal funds protected us from the full brunt of the economic down turn for the past two years. This was done in the hope that by now, and by Fiscal Year 2012, our revenues would have been restored to past levels. While our borrowing provided a cushion to even worse possibilities, it did not completely negate actions now necessary, especially since revenue generation is nowhere near pre-Great Recession levels.

Our financial situation has been worsened by the tax bill passed at the end of the last Congress. That legislation, as well as continuing the reduced income tax rates, also requires us to implement a small business tax credit with no offset, further straining our financial position. In addition, the end of federal impact aid dollars will wipe-out \$40 million of funding from our education budget from prior levels.

To be sure, certain other actions of the last Congress have been supportive of us. Healthcare reforms are necessary and positive overall, but here as well there are financial consequences due to Medicaid match requirements that are higher for us than those for the states.



It is evident that the recession has caused us great damage, and our government funds have not yet been restored. This year, our General Fund revenues are projected to be down by 20% from the 2008 pre-recession level. Personal income taxes are down 16% and corporate income taxes are down 71%, for a net income tax decline of 31%. Gross receipts taxes are down 5%.

For the General Fund, we now project a revised shortfall for this year of \$75 million and for next year of \$132 million. And these deficits do not include the unfunded pension fund contribution, which if fully met would increase these annual shortfalls by approximately \$70 million in each year.

Up until now, we have resisted the more dire measures that governments have taken across the country. Across the country, governments have been forced to reduce their expenditures and employment. Layoffs and furloughs have become the norm, and in this fiscal year alone, 26 states have laid off or furloughed workers. Since August 2008, state and local governments have laid-off over 397 thousand employees, with school districts the hardest hit at 205 thousand education jobs. And over the past two years, 34 states have implemented tax and fee increases, including increases in statewide sales taxes, and personal and corporate income taxes.

We all understand how critical government paychecks are to the lifeblood of our economy, and we have made every effort to keep our people working. We too -- all of us -- had hoped that the national recovery would make unnecessary such extraordinary measures as other governments have already taken. But the time has come when these measures are unavoidable.

Specifically, I will undertake the following:

- I will submit legislation implementing a two-year freeze on salaries and instituting three unpaid holidays.
- We will not implement the previously planned \$31 million in salary increases, quite simply because we cannot afford to do so.
- We will implement allotment cutbacks of \$17.1 million to executive branch departments and agencies in the current fiscal year budget.
- We will continue our limited hiring and attrition program with priorities given to law enforcement, education and healthcare.
- We will layoff approximately 300 per diem and part-time employees.

We need also to increase our revenues. We will have to raise taxes and we will have to collect those taxes that are due.

In this regard, I am pleased that we have finally resolved the long-running litigation surrounding property taxes in the Territory. No liens were sold, no one lost their home, but now it is time for all to pay what they owe.

And the collection of everything that is owed matters, as is the requirement that everyone pays what they owe. We have provided for payment plans on real property, and we have implemented a more aggressive collection practice to identify those who have not paid at all and those who have long-overdue obligations.

Specifically, I am proposing the following:

- I will request a 2% increase in the Hotel Room Tax, from 8% to 10%; and,
- I will request as well a Time Share Occupancy Fee of \$10.00 per day on units that are rented or exchanged.
- These two actions will bolster our Tourism Revolving Fund by \$6 million, and these funds will be applied directly to airlift development, investment in tourism product development and increased television advertising.
- I will request a cellphone tax, similar to that applicable to land lines, targeted to the operations of our emergency management apparatus.
- And finally, I will seek your approval for a 1% increase in the Gross Receipts Tax.

And as we take this particularly onerous step we shall begin to work towards the ultimate transition away from the gross receipts tax to a sales tax that can be more transparently and effectively applied, collected and enforced.

None of these actions are easy, and each one will provoke discord among segments of the population. But taken together they will allow us to address this most severe situation, and avoid the massive layoffs and severe cutbacks in services that will be required if we cannot move together down this path.

I anticipate that when this plan is implemented all of the independent agencies and authorities that do not fall under the executive branch will take comparable steps. I shall be writing to all of the chairs and heads of such agencies and authorities and, of course, I shall instruct all government members of all relevant boards and commissions to move for such actions without delay. And I would respectfully request that the legislative and judicial branches of government follow suit. We simply must curtail spending across all branches of government. Here again, I would argue that anything less is not fair.

I have spoken often about the challenge of securing our government employees retirement system since my first days as Governor -- even before GERS funding was further undermined by the global recession -- and it has served as a backdrop for many of the decisions we have made and actions we have taken. This remains our single greatest outstanding financial challenge. And this is because GERS itself has said that it will be out of money with within twelve years. Tackling the GERS problem does not begin with the budget of the government, but rather with the state of our entire economy, and the trajectory of our economic future.

Accordingly, each of the actions that we have taken -- to build our rum industry, to support business growth and development, to streamline permitting and new business formation -- all are critical to building an economic base that can produce the revenues to support our long-term obligations.

We have no choice but to take all necessary steps to bridge the gap between our revenues and our expenditures. All the while we must work to find ways that do not cost money, indeed may even save money, to improve the quality of governmental services to our people and to support economic development and business growth Territory-wide.

And as we move forward with the revenue and expenditure measures for the near-term, we must move forward with plans to consolidate government and create more efficiencies for the here and now, and reduce costs in the long-term. I will look to this body this year to finally act on our plans for the cabinet level Department of Sports, Parks and Recreation so that its name matches what it does each day to streamline and improve the quality of services so important to our children and youth.

I will again ask for your approval of legislation to bring the Virgin Islands Waste Management Authority back into the central government. While the creation of a separate authority may have been well intended, it is now clear that the Waste Management Authority is fully dependent upon the government for its financial support, to meet its bi-weekly payroll and for its ability to execute long-term contracts. As such, it is time that we realign financial responsibility and financial accountability, and bring that agency back into the government as a cabinet level agency.

I am also in agreement with the views of members of this body who have made the case that we should without delay approve the merger of the Virgin Islands Port Authority and the West Indian Company, Limited. These two public entities share responsibility for the crucial Port of Charlotte Amalie, but too often still find themselves competing with each other, duplicating costs and consuming scarce resources. This we cannot afford if we are to keep St. Thomas as the premier cruise destination in the Eastern Caribbean, and continue expansion of cruise ship calls to St. Croix. I look forward to working with you as we carefully craft legislation to combine these two strategically important entities.

Similarly, I agree with those members of this body who have spoken with me about the need to merge the Virgin Islands Economic Development Authority and the University's Research and Technology Park, as once more we look to streamline functions, to improve our ability to focus on building e-commerce opportunities, and to more adroitly respond to the needs of growing knowledge-based businesses. My Administration will work closely with this body and with the leadership of the University of the Virgin Islands to ensure that its programs and activities are relevant to the needs of our community.

The high cost of energy remains a challenge. It affects what we all pay for almost everything. It is a major concern for the individual ratepayer, and a key issue in our economic development. We know the crippling impact that spiraling energy costs has on our businesses and on our family budgets. I need not elaborate, but we all fear the arrival of our next utility bill.

For government as well as for individuals and businesses, the challenge is to reduce energy consumption overall and use of electricity generated with fossil fuels in particular. As a Territory, we are implementing our plan to reduce our dependence on fossil fuels by 60% over the next 15 years.

For the Virgin Islands Water and Power Authority, this means producing more efficiently, which it is pursuing through its usage of waste heat recovery boilers and a more aggressive maintenance schedule on existing units. As it seeks to diversify its energy mix away from dependence on oil, it is evaluating the engineering options for converting a large portion of its electric generation on St. Thomas and St. Croix to burn natural gas. The Water and Power Authority also plans to issue a request for proposal for solar generation in the coming year, is evaluating the feasibility of wind power on a utility scale, and is working with the Waste Management Authority on developing waste-to-energy as part of its generation portfolio.

For individuals seeking to reduce energy use, the Virgin Islands Energy Office has offered rebates for energy efficient appliances and renewable energy systems. And with its stimulus funding, the Energy Office has underwritten energy efficiency programs for several community organizations, and is now working with energy service companies to improve efficiency at our public schools and then with small business users.

It is not realistic to talk about energy costs or alternatives in our community without acknowledging HOVENSA and the important role they have as we address our energy economy. This is especially important as we evaluate the opportunities ahead, as the time comes to renegotiate the long-term agreement between HOVENSA and the Government, and we reaffirm and strengthen our relationship. However, HOVENSA today is facing a number of financial and environmental challenges in a tough global economy.

We must be realistic as we build a future of solvency and security. HOVENSA is a vital part of our economy, and to our community, as so many Virgin Islanders depend on HOVENSA, directly or indirectly, for their jobs and their livelihood. I believe that we must work hard to improve our relationship with HOVENSA. We must sit with them, and we must work with them. They are an important part of our history, and it is critically important that they be an important part of our future.

Modernizing our healthcare infrastructure during this era of healthcare reform provides a great benefit to our community by expanding the universe of those we can cover. It builds on our revisions to the State Medicaid plan, the introduction of a pharmacy benefit program and our current efforts to increase Medicare rates at our hospitals.

Accordingly, I plan to seek legislation to merge the departments of Health and Human Services. Our objectives here again will be to increase efficiency, reduce cost and rationalize overlapping services and responsibilities. What has become increasingly apparent is that these two departments service the needs of many of the same people. It makes no sense -- and we cannot afford -- to duplicate resources in each department when these resources are supporting efforts to assist the same beneficiaries.

In this arena, federal healthcare reform has provided positive opportunities for us, even if at some cost. With \$300 million in additional federal funding over the reform period, we will have the historic opportunity to reduce our uninsured population from 28% to a far lower number, open up coverage to those ignored for so long, including the ability to extend coverage to pregnant women and children up to 100% of the poverty level.

These reforms will enable us to restructure our healthcare delivery system so that the emergency room is not the primary point of access for the uninsured seeking primary care, while hopefully expanding the universe of general practitioners in our community. Our partnership with the State of West Virginia to manage our Medicaid information system will allow us to reduce costs, leverage federal funds, expand services, and ensure that providers are paid on time and that the mandated federal reports are submitted on time.

The injection of new and additional funding into the system will be a further boost to economic development and entrepreneurial opportunity. Healthcare is a major and growing industry across the nation. It is our goal to keep those healthcare reform dollars circulating in our community. Growth in this sector means not just more doctors and nurses, but I-T professionals, billers and coders, medical supply companies, technical support personnel and so many others that make up the healthcare industry. This means new career paths for our youth, and new opportunities for entrepreneurs.

And, as always, I want to extend special thanks and appreciation to one particularly prominent Virgin Islands healthcare professional, our Delegate, Donna Christensen, for her diligent and effective work in the U.S. Congress on behalf of the Virgin Islands. In fact, those obligations have kept her from joining us tonight. I have worked with Delegate Christensen for four years now, and she has been by my side at every step we have taken as we have worked together in our nation's capital to tackle specific challenges and assure continued support at the federal level.

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So these are but a few of the challenges that we -- all of us, me, my administration, and you, the members of the 29th Legislature -- must grapple with in the coming weeks, months and years. We were not elected during an easy time. Ours is a tougher time, and a greater call, as we must be the leaders who choose, through diligent thought and civil consideration, what things we must do without and what we must delay, if we are to have a tomorrow of prosperity, of justice and of freedom.

Generations before us have been tested. Two generations ago, we forged a future for our people built upon government employment as the key to building a middle class. Now, our challenge is protect that middle class, and to do that we must begin by taking the extraordinary measures I have outlined tonight. Now it is up to us.

We are on the right path, and we will continue to walk that path together.

Together, we shall persevere.

Each generation finds before them the challenges that they must face in pursuit of freedom's siren, and if they are to meet the challenges of living and prospering in a democracy. This is our challenge. This is our moment. This is a challenge to us all.

As the leaders of this community, I know we can set aside those petty disputes that so often get in our way. We can embrace instead our primary duty towards a common purpose: to work each day to improve the services we provide, and the programs we offer. We must work and work hard each day to ease the suffering of our people and aid them in reaching that higher ground.

And for every challenge we face, our determination will be greater. And from that determination, from that hard work, we shall make progress, we shall move our Territory ahead, and we shall earn the satisfaction of having done our work to the best of our abilities. Yes, there will be setbacks on our journey, but with God's help and guidance we shall persevere and we shall succeed.

May God bless you all and these Virgin Islands.

*"We cannot continue to act as if the purpose of government is government. We can no longer deceive ourselves. Because, if we do not fix that which lies broken before us, if we do not rise to this challenge for our people and our territory, let no one in this chamber be fooled: our financial condition will only deteriorate and the opportunity to build a vibrant economy that provides opportunities to the ambitious, support for those that require special attention, and a future for our children, will pass us by. "*

Governor John P. de Jongh, Jr.  
2011 State of the Territory Address

