

Members of the Clergy, Lieutenant Governor Francis, Delegate Christensen, 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. Good evening.

I want to extend a particular greeting to all who serve in the Armed Forces and especially to the thirty-six members of the Virgin Islands National Guard who recently returned from a year-long deployment in Afghanistan. I know that I join all Virgin Islanders in expressing our appreciation to them for their service to our nation.

I also want to honor six of our police officers who stood as guardians of our community and who put themselves unselfishly in harm's way — and they were harmed. Six of our officers were shot, and one gave his life in the preservation of our safety. I would ask that we all pause for a moment to remember Officer Colvin Georges.

The reality of the violence that confronts us has come all too close, and been all too personal. To each of you, from those who are deployed out of the territory to those who protect us at home, we are grateful each day and thankful for your service to community above self.

And to you, President Malone and the honorable senators of the 30th Legislature, I welcome the opportunity to work with you. I look forward to working with each and every one of you. All of you together and with each of you individually. The voters of this community sent a very clear message in November — they want new ideas and new approaches. And they want to know that we are working together on their behalf. From a field of many, you are the chosen fifteen, chosen to help guide our territory for the next two years. We face surmountable challenges, and we can accomplish many things through hard work, imagination and the will to make decisions.

And we do well to salute those of you who are here at the beginning of your service as senators. The greatness of democracy is that it has the capacity to replenish and reinvigorate and restore the strength and capacity of government by harvesting the good will, the good ideas, and the energy of the electorate. It is a privilege for all of us to serve in elected office.

And I would be remiss if I did not acknowledge another change in this chamber tonight. During the existence of our Municipal Councils in both districts, from 1937 to 1954, only one woman served during that period – Ann E. Abramson from the District of St. Croix. And with the election of our First Legislature in 1955 through the Fifth Legislature in 1964 only one woman served in each Legislature – Senator Lucinda Millin; and then only one woman in the Sixth Legislature, and that was Senator Bertha C. Boschulte. With the seating of this body, and for the first time since the Twentieth Legislature, a third of the Senators are women. In fact, now is only the second time since the First Municipal Council in 1937 that this has been the case. How can that be anything but a sign of progress?

Ours is a special charge, for these are very different times. This is a time of change whether we want it or not — it is a time when what we thought we knew no longer is, and where we need to go can no longer be reached by the familiar old road map. Our community is concerned. Some are frightened, and some challenged by the possibilities. But I believe that this

is a time of unique opportunities. This is a time when we, as the elected leaders of the territory, must show by our beliefs, and more so by our actions, that we can lead — that we have the will and the capacity to set the path forward.

We are at a transformative point. Since 2008, we have adjusted to the legacy of the Great Recession and in the last year we endured a major setback with the closing of our largest employer and taxpayer. But ours is a history of overcoming challenges, and now we must continue our path forward. For ours is a journey that remains incomplete. We have gone from a municipal council to a legislature, from an appointed Washington representative to an elected delegate, from appointed governors to those elected, and, more recently, we saw the final recognition of our Supreme Court by the Congress of the United States. And while we still grapple to draft and approve a constitution, we clearly know our future is ever brighter as we continue toward our full destiny as Americans.

Full political maturity, however, is dependent upon restoring full integrity to our election system. We must eliminate the cloud that hangs over the process, and utilize available new technologies to address valid concerns, and put in place the improvements required. This can be done as we also implement needed reforms to early and absentee voting. I am prepared to work to achieve these objectives by the next election.

We have come a long way since officials of the federal government, a half century ago, laid down pathways for our development. Uncomfortable with the colonial vestiges of a plantation culture and an agrarian economy, it was through their policies that our entire social and economic structure was remade. They appointed our governor, oversaw the actions of our municipal councils. Oversight moved from the Department of the Navy to the U.S. Department of the Interior. They created jobs for those who were residents here, as well as thousands who came to our territory.

They created a model of private and public sector jobs that would endure for a half century as the foundation of our St. Croix economy – Harvey Alumina, Amerada Hess, Martin Marietta, HOVENSA. And the Government of the Virgin Islands. Between those employers, combined with the tourism industry grown from our sun and our beaches, our economy was built.

And we have come a long way. We do well to note our achievements as we get ready to celebrate 100 years as a U.S. territory in 2017. Our institution of higher education has gone from a college to a university, we now elect our governor and legislature, and we have a delegate to the U.S. Congress, and we are slowly seeing the transition to small business creation as a source of independence and wealth as more Virgin Islanders look to the private sector instead of government employment. And I have no doubt that we will one day find the means and courage that will lead us from the Organic Act to a Virgin Islands Constitution.

Last year, when I stood before this body to give the State of the Territory Address, it was in the wake of the deeply stunning and painful realization that the era of Hess and Harvey — the half-century of heavy industry on our land — had come to an end. I delivered this message as

our community remained weary from the impact of the Great Recession that started in 2008, and the very unpopular, but necessary, decisions we made in 2009, 2010, and 2011.

With your election as the 30th Legislature, we have truly come to a decision point. We must — and we will — make the choices that will define our future. We will not leave our future up for grabs. We cannot go back to the paternalism of the federal government, and we cannot turn our backs on the progress we have made to create opportunities for our people or the foundations we have laid to create pathways to jobs, ownership and wealth.

With the end of our reliance on HOVENSA as our cornerstone industry — and let there be no mistake here on St. Thomas or on St. John and Water Island that this one company was the cornerstone industry of our entire territory — our economic future will depend upon our ability to support a diversified economy, with an educated and adaptable workforce. This is not a new reality, as this has been the focus of our efforts over the past six years.

The statistics of this moment in time portray a story that tells of progress, but I would remind us all that financial numbers change constantly, and we must plan and act accordingly.

- Our Gross Territorial Product rose in 2010, though it remains down 7% from its peak in 2007 to approximately \$4.5 billion. This is before the HOVENSA closure.
- Governmental tax and fee revenues remain 19% below their 2008 peak.
- While the total number of cruise ship passengers are near pre-recession levels, and air visitors are now higher, total visitor expenditures remain down significantly.

At the governmental level, operating deficits continue, though they have declined appreciably due to the prudent steps we have taken, yet in the current fiscal year our operating revenues remain \$50 million below expenditures and there remain substantial obligations that are not funded. Our healthcare costs are rising each year, as our population is aging. And we have a pension system with an unfunded liability that has been underfunded for decades.

This is our financial reality, at this point in time.

Our challenge is to find the balance that maintains essential public services, serves our elders, gives a voice and meets the needs of those most in need, pays our debts, and creates opportunities so our young people can realize their full potential.

These are the realities within which we must operate, and these realities frame the responsibilities that we have an obligation to address. I am committed to protecting local control from an encroaching federal government and to making the government an effective partner with the private sector. I have committed my administration from the outset to bring order out of chaos, and to impose across the agencies of government the principle that we are “One Government”.

Our efforts over the years have continued to focus on the three cornerstones of our long-term future — economic development, education and public safety.

Our economic development efforts have been all-encompassing.

Our tourism sector continues to grow, and both cruise and air passenger visits are at or near their highest levels in a decade. Our challenge now is not just to attract the cruise lines and airlines, but to expand on the range and diversity of landside activity and retail options; to increase our air lift by continuing to reach out to partner airlines; and to build the resorts and marinas that have long been on the drawing board. Carambola on St. Croix was strengthened by its branding as a Marriott, Seaborne Airlines has stepped in where American Eagle exited, William & Punch is close to full permitting, and we anticipate the renovation of an existing resort on St. Thomas and the construction of a marina on St. John. On Water Island, we are doing a feasibility study on a possible boutique resort to grow that island's economic contribution to the territory as we seek to further diversify our tourism product.

All of these efforts benefit from the Department of Tourism's broadening of our focus from the traditional east coast market into Texas and the western states, as well as into Scandinavia and other international markets.

As we position ourselves in an extremely competitive market and enhance our infrastructure, we have restored our funding relationship with the Federal Aviation Administration to bring new dollars into our airports. We are working with the Port Authority to improve its berthing at Crown Bay, and with the West Indian Company to add a new pier with one or two of our cruise partners to increase berthing capacity in the port of Charlotte Amalie. We are issuing a request for proposals for Paul E. Joseph stadium, expanding our refurbishment of the Christiansted Boardwalk, discussing with the Housing Authority the demolition of the abandoned de Chabert structures to allow for new opportunities, undertaking the enhancement of Main Street in Charlotte Amalie, initiating a town blueprints for Christiansted, Frederiksted and Cruz Bay, and implementing water transportation between our islands, and specifically within the port of Charlotte Amalie.

We have retargeted and seen growing activity in our Economic Development Commission programs. The EDC today has a larger number of new applicants moving through the process than in recent years. Indeed, since 2010, we have had a steady increase in the number of applicants and the jobs to be created. We have new companies in emerging fields, such as mortgage services, web-based services, financial analytics, and high-tech manufacturing hiring dozens of our local graduates. And what makes the approval of these applications different is that unlike past practice, now an approved applicant has to start operation within twelve months of approval versus the five years that was previously allowed.

This is the model of our economic future. Gone is the era of one employer with a thousand employees, but instead we will have tens if not a hundred new smaller companies with five, fifteen or fifty employees forming the base of a dynamic and adaptable economy. This is the business model of the RTPark, which now has 21 knowledge-based businesses whose activities range from life sciences to information technology to publishing, and new venture

capital investments and partnerships with the University of the Virgin Islands. This model for our development is further enhanced by the installation of the viNGN's broadband network, which will provide the technology platform that will make that adaptable economy a reality.

Along with the development of the broadband network, we are opening up to thirty public computer centers that will provide Internet access through approximately 400 workstations for our residents. The benefits of these centers are already being seen, and include teacher-led training in computer literacy skills as well as the ability for our residents to develop new careers in web services, call centers, and data management, just to name a few possibilities.

And essential to these efforts has been our focus on locally owned small businesses, as reflected in our bonding and surety programs at the Economic Development Authority, the millions spent with local small businesses, and having the viNGN broadband network built by local firms.

And agencies across the government are critical to supporting this new economy, and reinforce the importance of the "One Government" principle that we have instilled:

- The Departments of Planning and Natural Resources and Licensing and Consumer Affairs, working with the Fire Services and Bureau of Internal Revenue, have improved the licensing and permitting processes to become more efficient and transparent. The leadership of these agencies fully understand the critical role that their agencies play in assuring that we are moving forward and supporting private sector growth.
- The Department of Agriculture has supported our farmers and expanded opportunities with the Farm to Table Project, the "Virgin Fresh" marketing campaign, the opening of Windsor Farms, the opening of the Bordeaux Farmers Market, and, with the guidance of the Department of Tourism, has established relationships with cruise lines to purchase local products.
- The West Indian Company and the Virgin Islands Port Authority have established a berthing committee to ensure improved coordination of cruise ship calls and maximizing all assets to increase and protect calls to the Virgin Islands.
- The Fire Services and Emergency Management Services are coordinating their efforts to streamline assets and resources, thereby reducing response time and overall costs to the Government.

If agriculture is our oldest industry, rum is not far behind. This year marked a milestone in the production and sales of Virgin Islands rum. Supported by our public-private partnership, our long-time partner Cruzan VIRIL reached a new high in rum sales, and completed its long-delayed waste treatment plant to finally address the brown stain off St. Croix's south shore. And this past year, Diageo, with its Captain Morgan brand, began full production at its new, state-of-the-art distillery at St. Croix Renaissance Park. Together, our partners have doubled the level of rum production on St. Croix to historic levels, assuring continued growth in the matching fund

revenues that have become critical to our fiscal stability. This one area has caused much discussion locally and nationally, and now internationally.

As we continue to work with Delegate Christensen to educate the U.S. Congress on the importance of the Cover-Over program, and work with the U.S. Trade Representative to also educate the World Trade Organization that the positions of our Caribbean neighbors are misplaced, I hope that this body will offer its counsel and support so that we can present a unified front as we navigate these uncharted waters. You know as I know that this is an ongoing task of explaining and defending this long-established congressionally approved program.

And all of these developments are integral to our strategy to support the growth and transformation of our economy. This is the path that we embarked on six years ago, and it has positioned us well. Private initiative. Education. Entrepreneurship. Building a knowledge-based economy. Integrating technology and connectivity into our future. Investing in worker training and retraining. Facilitating permitting and licensing to better enable projects to move ahead, and to better enable dreams to become reality.

But even as we are making strides, there are clear challenges in our path.

Our energy costs remain unacceptably high. They drain cash resources from our family budgets and cripple small businesses. Last year when I stood before you, I called on the Governing Board of the Virgin Islands Water and Power Authority to deliver to me a revised and realistic plan to get us moving on a path that will bring the cost of electricity down substantially. And they have done so. While the timeline will not change things overnight, WAPA is on a path to convert to a flexible generating capacity so that it can always use the lowest cost available fuel — be that diesel, propane or natural gas — within eighteen months. The change to propane is projected to reduce electricity costs by one-third, while the longer-term conversion to liquefied natural gas should enable further reductions in electricity costs.

This conversion to lessen our dependence on oil is not happening as fast as I would like, and as all would want, especially as we continue to pay 54 cents a kilowatt-hour. Our rates are significantly higher than any of the mainland states, and although they are in the range of Hawaii and many of our Caribbean neighbors, this offers no comfort to many or relief to our pocketbooks. We have been consistent in our attempts since 2007 to wean ourselves from dependence on fuel oil for electricity generation. We completed an Energy Plan with the Southern States Energy Board and set a goal of 60% reduction by 2025. We are participating in the Energy Development in Island Nations program and working with various local groups implementing the programs necessary to achieve this goal.

Just this past year, the Energy Office funded and supported 22 non-profit organizations in completing energy projects as well as energy audits and retrofits in homes across the Territory that will reduce our use of fossil fuels. We also completed the retrofitting of eleven public schools throughout the territory to reduce energy costs and we have a guarantee from the contracting companies that such promised savings will be achieved. With new funding secured in December at historically low interest costs, we will move ahead with energy saving investments at 34 schools and educational facilities that will further reduce their cost of energy.

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The second cornerstone of our future is education. Never before has the value of an education been so vividly proven as during this painful national recession, when those with an education stayed employed and those without lost their jobs. Given the emerging rules of our new economy, adaptability, curiosity and life-long learning are no longer a luxury — these are what sets one apart from others. And every student and every adult should understand that while the government can make educational opportunities available, nothing — nothing — can substitute for the initiative that each individual and each family takes to achieve higher levels of education, one generation after another.

Our initiatives in education have been designed to broaden the possibilities for each student to achieve her goals, to realize his dreams. Each must be prepared for a life of change. And we are having success as our drop-out rate has steadily declined and is half what it was a few years ago, especially showing that fewer children are leaving school between seventh and twelfth grade. And our graduation rates are also steadily improving, even though more improvement is needed.

We continue our commitments to and investments

- In Parent University.
- In a student information system to provide more access to parents to look at their children's grades and attendance, see homework assignments, send messages to teachers and receive instant alerts from either the school or teachers.
- In a Kindergarten Camp aimed at helping parents to better prepare their children for kindergarten and helping kindergarten teachers to better provide that first solid, formal schooling foundation necessary to help children be more successful.
- In Saturday Academies offering classes in mathematics, reading, science, English, and social studies.
- In a Career Academy Program geared towards increasing the graduation rates for high school students with disabilities.
- In Microsoft Academies that will offer technology-based foundations to our middle and high school students with the ability to obtain industry-level certification.
- In the development of an Early Warning and Implementation System that will lead to personalized plans for students who are showing indications that they may drop out and not complete high school.

And we continue to move ahead with a new school on St. John.

Each of our new programs and initiatives, from parenting support and student development, to initiatives in science and math, to acceptance of career and technical pathways, are efforts that will bear fruit years, if not decades, down the road. They are essential to our strategy to remake our economy and give our students the tools they need. There is nothing we do that is more important.

The objective of all these efforts is to improve educational outcomes, which is a long and slow process but we are steadily making gains. And as the first off-shore location to sign on to the Common Core Standards, all students in grades K-12 have new text books in Math and English Language Arts that are aligned to the Common Core State Standards. Students can also access the textbooks online.

Overall, while we are not where we want to be in the classroom, the performance of our schools is improving. The percentage of schools in the St. Thomas-St. John district reaching benchmark and reading on level by 3rd grade increased to 53% in 2012 from 44% in 2010 due to improvements in the comprehensive elementary school program. On St. Croix, the students achieving above the 50th percentile in reading, science, and math increased approximately 2.9% from 2010 to 2012, to 53% for reading, 52% for science and 58% for math.

Additionally, over 500 students took Advanced Placement exams, the largest number we have achieved, a sign of continued growth in courses that are academically rigorous and the willingness of our students to challenge themselves academically.

In cases where we do not believe gains are being made, we have stepped in to achieve reform and restructuring. We now have eleven schools under the State's guidance as part of the continued effort to provide support to the lowest performing schools.

And so at this time, I would like to recognize our Teachers of the Year. With us here tonight is Faye Richardson, who was selected as 2012 Teacher of the Year from the District of St. Thomas-St. John. Miss Richardson is a dedicated history teacher at Ivanna Eudora Kean High School and a ninth grade team leader. We recognize as well Harolyn Smith, who was selected as 2012 Teacher of the Year from the District of St. Croix. Miss Smith is a passionate third grade teacher at Ricardo Richards Elementary School, committed to the growth of each child.

Please join me in acknowledging their accomplishments, and those of all the teachers and education professionals that they represent here tonight.

Even as we acknowledge and appreciate these teachers, we all know we must be ready to do more and expect more. The school day must be longer and the school year longer. Student achievement must be part of the teacher evaluation system.

The national teachers' unions, including the American Federation of Teachers, whose locals represent our teachers, have worked across the country to reach agreement on contracts that do what I have consistently insisted that ours must do. I am confident that our local union leaders will agree to support our efforts to do what must be done as part of our common effort to support our children. These two issues — a longer school day and longer school year — were presented, and have been sent to impasse arbitration. Soon, we will begin developing a major

component, that of a teacher effectiveness system – we are completing the timetable to hold a kick-off meeting next month. As I have said before, these contracts must be negotiated with one and only one goal: making sure that our schools continue to improve in meaningful ways, year after year, such that the future of our children, and indeed the future of our Virgin Islands, is assured.

It is my intention that the new contracts we are negotiating allow our essential improvements in educational outcomes to continue. The school day, and the school year, and a teacher evaluation system will remain the focus of our efforts, and I know our teachers are ready for this dialogue and commitment.

We continue to support the University of the Virgin Islands and its efforts in entrepreneurship. I applaud the success of the first Business Plan competition this past year, the growth of Junior University, and the University's efforts to meet the needs of the community. I note the new "64 West Center" building is under construction on the St. Croix campus to house the RTPark and the University's science and math programs. The foresight shown in the creation of the RTPark and involvement in the four university system that will lead to a marine research and educational center at Salt River, all set the stage for the University's recent initiative to study the feasibility of a medical school at the University.

To ensure that all of our children have the opportunity to take advantage of K-12 and higher educational opportunities, we are increasing our investment in early childhood education. We are the first offshore Territory to implement a quality rating system. This closely follows the creation of our Early Learning Guidelines by the Children and Families Council, chaired by First Lady Cecile de Jongh, to inform parents and professionals alike about what children should know and be able to do when they enter kindergarten. This will be followed by the Infant and Toddlers Developmental Guidelines to focus on children from birth to three years old. The Departments of Education and Human Services are collaborating to align educational services for preschool children as they move into kindergarten, with a focus on the development of oral language skills that form the bedrock for literacy.

We are in the process of creating a professional development system to ensure that those who work with young children and families have the knowledge and skills needed to help children succeed. We have held Children's Health Fairs to identify children in need of early intervention; we have launched a "Text4Baby" campaign targeted to pregnant women and mothers of newborns.

All these efforts are focused on ensuring that our children enter school ready to succeed so that future Virgin Islands leaders will not have to focus on the same social ills that confront us today as a result of our past failures to prepare our children for success in school. Poverty, juvenile crime, teenage pregnancy and school drop-out rates can only be reduced in the future through the investments we make today in our youngest citizens and their parents.

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Public safety is the third cornerstone of our future development and the quality of life in the territory. It is a vexing challenge. The problem of violent crime in our community is

unresolved. It is a deep systemic problem, yet one where everyone's initial instinct is to point the finger of blame at someone else.

In 2012, we had fifty-six murders, a number that is unacceptable by any standard. It is troubling that half of the murders involved people thirty years of age or younger. Yet I watch in astonishment as the parents of young people committing crimes point to the government for its failures to address the problems of crime, while in their own homes they ignore the obvious signs of illicit gains and behavior.

I acknowledge that for some it is an issue of fear, and the ramifications that could befall them if they speak out. But we must accept that we cannot rely on our police officers alone to anticipate behaviors that lead to crimes of opportunity or violence. I would submit that with each attempt to shift blame, we remember those police officers who put themselves in harm's way to protect us. They spoke out through their actions — can the rest of us remain silent when we see wrong doing in our homes and in our neighborhoods?

In the aftermath of the tragic shooting that took the lives of 26 at the Sandy Hook Elementary School, our Nation's attention on gun control, and our President's plan to address the issue of guns in our society, we have initiated a review of our gun licensing procedures, the security measures at our schools, and the over-arching issue of guns in our territory. Our laws do not allow for the ownership or licensing of assault weapons. We restrict ammunition capacity to no more than twelve rounds, and we require background checks. Indeed, last year, we increased our recovery of illegal weapons by seven percent.

However, the fact remains that we do not manufacture or assemble guns in the territory. Whatever guns are in the Virgin Islands were brought here. We need to eliminate the unregulated and uncontrolled entry of weapons, as well as their transport between our islands, and new measures to detect such transfers will be put in place. We need the Postal Service to reinstate the postal inspectors it transferred to other jurisdictions, as the Delegate has requested. Border protection is most certainly a federal responsibility, albeit one where local vigilance and cooperation are an important ingredient to success if we are both to monitor and stem the flow of illegal weapons, and for that matter drugs, into our territory. And in this regard, we have substantially improved our relationship with the Bureau of Alcohol, Tobacco and Firearms, which is once again a presence in the territory.

Our public safety challenges confront us all — all across the Territory. The courts. Our parents. The family circle. Police recruitment. Church involvement. Police retrenchment. From posses to gangs. Easy access to drugs. The parole system. Impacts of poverty. The prison system.

None of this is a secret.

Since 2007, we have gone from 50 inmates at Golden Grove in pre-trial detention to over 200 today, clearly the Police are making arrests. But even as we work to disrupt and dismantle criminal enterprises, our court system has yet to meet the challenge of processing and adjudicating a rising number of cases.

I believe that we have made steady progress in improving our police department. And in saying this I am not just viewing those factors set out in the consent decree under which our police department has been operating for a number of years, but other measures that reflect our efforts to build a more effective force in which we, as a community, can have confidence and take pride. That all segments of the community are coming forward and offering more and more information and assistance to the police is just such a measure.

Our police department has been working not only harder, but smarter, in identifying where to apply its still-stretched resources. From all sources, including community input, the department has been gathering and using intelligence on who and where to target their efforts. We all know that most in our territory have heard it said that in a place this small the police “must know” who the bad guys are. Well they do, and they do with increasing information and better targeting.

Only a couple of months ago top officials on St. Croix informed me that they had identified a core group of about fifteen individuals who they felt shared disproportionate blame for the criminal activity on the island. In their follow-up reports to me, I have been pleased to learn that thirteen of them had been arrested. And I can assure the others, as well as those who think it is a step up to make this list of career criminals, that they too will meet justice and be punished. The mission of our police department is not a single strike for victory mission. It is a day-to-day, night after night grind to bring a deeply rooted problem under control.

We work every day to connect the dots in a systematic way to identify and track the relationships between these criminals. Our intelligence unit is functioning, but to improve our effectiveness we will be establishing a criminal justice statistical analysis center to analyze criminal justice data and serve as a planning unit for interagency action.

We have had significant success in the prosecution of homicide cases resulting in conviction by jury or in plea arrangements that take dangerous criminals off the streets for a number of years. Our local prosecutors have also worked closely with federal prosecutors to refer cases for prosecution under federal law where appropriate. And we will be transferring high-risk prisoners from our territory to off-island facilities to mitigate the risk of contact with others.

But I am not alone when I say that many in this community simply do not understand what we see all too often. How is it that one judge can release a defendant pending trial on the condition that he obey all our laws, and when the defendant is re-arrested and probable cause is found, that defendant is let out on the street again before ever having to stand before the judge who let him out in the first place.

In the District of St. Croix alone, between 2010 and 2012, we saw over 100 cases where someone was arrested, then released on bail pending trial, only to then be arrested for another offense before the first offense had even been brought to trial. Some of these subsequent arrests included homicides and other violent crimes or the possession of firearms. Our judges simply must give greater weight to the fact that many of the defendants they are releasing are a danger to the community and these offenders should be kept in jail pending trial.

This is a destructive cycle in which our systems fail to work as they should and criminal conduct goes on.

All who work in the criminal justice system know that for there to be justice we must be kept safe from those who would do us harm or threaten our property. The system cannot work without coordination and cooperation between police and prosecutors and corrections. The system cannot work without cases being promptly processed by the courts. And the system will not work without the continuous cooperation of all law-abiding citizens.

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Throughout this past year, I have updated the community and met with members of the Legislature with respect to our discussions with the owners of HOVENSA – the Hess Corporation and PDVSA, the national oil company of Venezuela. From the moment of the announcement of HOVENSA's closure to today, we have worked diligently to forestall any precipitous actions that would worsen the impact of the HOVENSA shutdown. We made certain that nothing would threaten the payment of all severance amounts due to the workers of HOVENSA and its contractors. We made certain that WAPA had the time to put in place alternative sources of oil. Then we made certain to protect the access of St. Croix gasoline stations to fuel from the rack, and to explore new supply relationships. Each of these steps was taken deliberately to assure that in the midst of this devastating trauma, even worse outcomes were prevented. Out of these ongoing discussions we were able to put in place the Interim Agreement that runs to February 28, 2013.

We have made clear what our interests are, and HOVENSA's owners have stated theirs. While we accept that neither company wants to be in the refining business, we are determined to explore every possibility of finding a new operator that would take over the facility and reopen it as a reasonably scaled refinery, providing good jobs on St. Croix once again. And, if that is not to be, we want HOVENSA to accomplish the environmental clean-up and restoration of the facility and site required by law, so that a new and different use can be safely developed on the south shore of St. Croix. We have accommodated HOVENSA's interest in utilizing the property as an oil storage facility during the pendency of our discussions, and we agreed to certain substantial agreements with the company during this period so their storage business can be operated successfully while we explore better options for the future.

I acknowledge that HOVENSA has its interests, as we have ours. The ongoing challenge is how we bridge these differences and find common ground. I do not know if those interests can be reconciled, but that is what we are pursuing actively and aggressively. And whatever agreement we reach, and however those differences are reconciled, that agreement will require the review and approval of this Legislature.

And I acknowledge that this has been, and will yet be, a long process. But as a community we must resist our all-too-familiar tendency to be swayed by rumors or fears or narrow special interests. And I am sure we all agree that these complex and crucial negotiations cannot and will not be conducted in the press or on the airwaves. That said, there are certain fears I would like to allay, and certain rumors I would like to end.

First, we have all heard that the great danger facing the people and the economy of St. Croix is an abrupt cut off or disruption of fuel deliveries to the island, and HOVENSA's ability to deny use of its facilities —the dock, tanks and rack used for the delivery of such fuels. This will not and cannot happen. The owners of HOVENSA have threatened no such action, and I am confident that they would never carry out any such action, as it would be gratuitously vindictive to a community where they have enjoyed a long and profitable history. Moreover, I am sure they have been advised by their attorneys — as we have by ours — that any such disruption would directly and immediately threaten the public health and safety and would not survive the instantaneous legal challenge it would provoke. HOVENSA and the government have openly discussed the need to keep these delivery systems open and operating, and the government will ensure that they are.

Similarly we have heard rumors that HOVENSA has threatened to walk away from its obligations to clean up the environmental damage that it has caused over the decades and restore the site for productive use. Nothing can be further from the truth. I am sure that the owners would like to minimize their obligations and costs, but that is a business decision, nothing more. We have a long-standing Natural Resources Damages case against them that goes to trial later this year, and they have numerous local and federal claims against them that we continue to work together to resolve. The community can be assured that we are asserting, and will continue to assert, our rights as a community, and as a government, as we try to find an acceptable solution to an issue that is so important to us and to them.

Others have speculated that HOVENSA might walk away and leave the territory holding a very polluted bag of obsolete and dangerous infrastructure, and long-term environmental damage, simply by filing bankruptcy. If such an action is taken by HOVENSA or its owners, the territory is and will be the largest creditor of that bankruptcy by reason of the breach of contract claims we would assert for the central government as well as on behalf of WAPA, which is a third party beneficiary of our Concession Agreement with HOVENSA. I am comfortable with the research our lawyers have done and the outcome we can anticipate at the end of the bankruptcy process.

All will agree that the closure of the refinery has had a devastating impact on the territory. I believe all will agree as well that the closure was done with insufficient notification, time that would have allowed our families to better prepare. But no one should feel that we are helpless. We believe we have substantial claims against the company for its unilateral actions based on contractual requirements. And all should remember that HOVENSA is not just an independent Virgin Islands business, it is also a party to a number of long-standing contracts and obligations with the government that the company — and the government — must honor. If we cannot reach a compromise that achieves our interests, which are substantially positive for St. Croix and the Virgin Islands, we will pursue our claims aggressively and hold HOVENSA and its owners to their obligations under the law and our agreements.

As we approach the February 28th expiration date of our interim agreement, there remain many differences between us that have yet to be resolved. HOVENSA's owners are determined that we give them our long-term support for an oil storage business, a business which by their

own description will be using only a part of the St. Croix facilities, and which they propose to operate with a significant reduction in property tax payments, negligible employment requirements and forgiveness on taxes for their business activity, not to mention postponement of efforts at environmental clean-up or remediation. In our view, such a business, not linked to an operating refinery, would provide little long-term employment with dramatically reduced revenues to the Territory, even as we would continue to bear substantial environmental risks from significant shipments of oil in and out of the south shore. Instead, we have continued to press Hess and PDVSA to find a new owner for the refinery, and we believe they will ultimately work with us to move in that direction.

In my view, public sentiment is clear: If the refinery is to be closed for good, then the obligation of the parent companies, the owners, is to take it down and clean up the site. An oil storage business alone is not in the best interest of the Virgin Islands. Our interest is in a refinery or a remediated south shore. I do not know what the result will be, or if HOVENSA and its Owners will choose to force us to litigate the outcome or choose to file for bankruptcy, rather than work to a just and fair resolution. Only time will tell. We must stand firm, and stand together, and as we have helped them in the past, they should not impede our future.

But while we are pursuing this goal, I urge all to resist inflaming the situation or alarming the population with baseless assertions or unsubstantiated fears. It is now about our future, how that site is cleaned-up and how it is utilized. It may be a long process, but the best interests of the Virgin Islands will be made clear — and they will be achieved.

The closure of the HOVENSA refinery presented an immediate and acute challenge to all parts of our government. And each of our government agencies rose to the challenge as we addressed the impacts on individuals, on families, and on all sectors across the territory.

It is time that all of us — too often basking in the ease and cynicism of the Monday morning quarterback — recognize government for what it does well. Within weeks of the closure, with the assistance of the Delegate and the Department of the Interior, a roundtable discussion with well over a dozen federal agencies was held in Washington, D.C. where we outlined the impact and our needs going forward.

Our Department of Human Services saw its workload increase literally overnight. In this past year, \$57 million in financial aid to 30,000 clients has been disbursed.

The Department of Labor was similarly challenged. In the immediate aftermath of the announcement, the Department provided assistance to over 3,500 dislocated workers in applying for unemployment insurance, job placement and training, child support, housing subsidies and medical and legal assistance. Again, with the Delegate's assistance, the department applied for and received a \$7.8 million National Emergency Grant that has been used to help refinery workers diversify their skills and become flexible and adaptable to survive. The Department of Labor has also been linking with other agencies and partners to help Virgin Islanders build their own businesses leveraging the broadband assets of viNGN and securing contract work on the Internet.

And, just recently the U.S. Department of Commerce has provided funding to the Bureau of Economic Research to assess the impact of the closure of the oil refinery and \$1.4 million to the Economic Development Authority to start a small business incubator program to build our infrastructure and support apparatus.

Public sector capital projects have been a sustaining force over the last couple years. With the yellow cones, temporary traffic lights and road dividers now a common sight across the territory, the Department of Public Works, WAPA and viNGN continue to roll out new projects. The road program is moving ahead in earnest, as exhibited with the opening of the Christiansted Bypass, the work on Melvin Evans Highway and in the Havensight area, and design is well underway for the Veterans Drive Project and almost complete for the Main Street Enhancement Project.

But a lot more is being done that is not on or in our roads, and, indeed, is often not terribly visible to the general public, such as an RFP for an adventure park on St. Croix, and renovations to Fort Christian and the Oscar Henry building in Frederiksted. A number of critical projects have focused on the renovation of schools and on housing, where, through a strong partnership with the Virgin Islands Housing Authority, we have renters in Williams Delight finally moving to home ownership, the completion of Phase I of Louis E. Brown Villas, and the start of construction on senior housing initiatives, including Phase II of Louis E. Brown Villas and a senior citizens home in Sugar Estate.

The interconnectedness of our efforts has been and will be critical to our success. Step by step, we are laying the groundwork for the diversified and resilient economy that will be our future. Building our tourism market. Linking broadband and the RTPark, and creating I-T academies to enable a knowledge-based economy in the territory. Reforming the Economic Development Commission programs to increase responsiveness and reciprocity. Creating a customer service focus in our land use and permitting agencies. Diversifying our educational offerings to meet the evolving needs of our population, and embracing the vision of UVI as a center of excellence. And investing in early childhood education and parenting programs to give a head start to the generations of Virgin Islanders to come, who will be the work force, the taxpayers and the leaders of the future.

All of this is interconnected, and all of this takes time and focus to implement. We are heading in a new direction, and it is all coming together.

All of this has been done, and will continue to be done, during a period of unprecedented fiscal stress. Each of our agencies and departments has had to do more with less, and I am grateful for their performance. Our government today is substantially smaller than when I took office. Since 2007, total central government employment, those paid from local as well as federal funds, has been reduced by 1,700 workers, or 20%, from 8,800 to 7,075. Within the General Fund, we have reduced employment by over 1,400, or 21%, from 6,740 to 5,300.

But for whatever strides we have made in reducing the cost and size of our government, the simple truth is that we have a long way to go. You — the members of this Legislature — and I have much more to do. The reality of our economic situation is that our revenues remain

significantly below our operating expenditures. We have not seen the end of the need for budget cuts. And this is before we take into account our enormous unfunded pension liability.

Over the coming months we will face hard choices as the task force appointed to recommend a comprehensive solution to the critical challenges facing the Government Employees Retirement System completes its work and submits its recommendations. I intend to meet with the task force, meet with the trustees, and with members of this body to fashion a plan and suggest legislation.

The solvency of our pension system is a priority that must be addressed if we are to ensure that payments continue for those retirees who depend on GERS and for current employees who expect there to be a pension when they retire. The statistics are well known to us all: the system is less than 50% funded, there is an unfunded liability of \$1.8 billion, and an annual underfunding of employer and employee contributions of \$80.0 million. If no corrective measures are taken GERS will be out of money in less than ten years.

We cannot continue to push this off in the hope that some future governor and legislature will tackle it for us. At the outset of my Administration, we developed our rum initiative specifically with the intention of utilizing a portion of those new revenues for funding GERS. But that strategy fell victim to the global recession. Our larger imperative was keeping our schools open, our healthcare system functioning, our law enforcement officers visible through the Great Recession.

For our workers, for our retirees, for our citizens and taxpayers, there will be no simple solution, and, regardless of how one views the history that brought us to the current situation, no participant in or beneficiary of that system should expect to escape without sharing in the cost of securing its future. The report of the task force will be an important starting point for this discussion, but ultimately it will rest with me and the fifteen of you to discuss these issues openly and tackle this challenge head-on.

The other great opportunity we now have is to fix healthcare. With the passage of healthcare reform, we now have the opportunity to transform the access to and affordability of quality healthcare. Within the next two months, I will receive recommendations on what we should do to take full advantage of the federal funds that can come to our Territory based upon the decisions that we make.

Our choice is, do we implement Medicaid Expansion and increase coverage beyond those we now serve, or instead, do we implement a Health Insurance Exchange in order to insure the almost 28% of our residents who are now uninsured?

With the passage of the Affordable Care Act, and the implementation of Healthcare Reform, we now have the tools to make this a reality. But to make this a success, we will have to increase our funding out of the General Fund by over \$21 million per year through 2019 if we are to ensure that we achieve the maximum level of participation intended. If we choose to do this, we will receive a corresponding \$275 million from the federal government over that period.

Healthcare costs are a significant challenge, and the condition of our hospitals must be part of our analysis of our healthcare options. The organizational separation of these crucial institutions is costing our community too much. Promises are being made that cannot be kept, bills are going unpaid, and required investments are not being made for lack of resources.

When you combine the costs of pension reform and healthcare reform, we can no longer afford continued dysfunction in our hospital system. It is time for us to have the political will to recognize like all the other semi-autonomous entities in our territory, we need one hospital authority that can streamline resources, share staff, consolidate purchases, and mitigate the increases in overall healthcare costs. Let us work together to get this done.

And the solutions to these myriad of challenges do not lie in looking to Washington, D.C. with a piece of legislation or a resolution, nor does it come from a barrage of emails that are sent to various federal agencies. This is, first, because they will not give money, and second, because they are already here and I am trying to get them to leave in certain areas. I proposed increased federal involvement with the peace officer status legislation, and thank this body for its passage, but now we need the federal government to bring to closure its involvement in several other areas, and we are working to achieve this.

- We are working with the U.S. Department of Education to transition away from the third-party fiduciary.
- We are negotiating with the U.S. Department of Justice to end 25 years of litigation related to the Golden Grove prison.
- We are working with the U.S. Department of Treasury to develop fair, clear and understandable tax rules that preserve the sovereignty of our taxing authority and the procedural rights and protections of our taxpayers on the issues of the statute of limitations, residency and source income, and also have filed briefs against the U.S. Internal Revenue Service in eight cases in order to ensure that our policy objectives are taken into account and not unduly impacted by a judicial opinion.
- We are working with the U.S. Department of Justice to resolve the issues arising from the consent decree with respect to our Police Department.
- And work is in progress with the U.S. Department of Housing and Urban Development to regain local control of our Housing Authority.

I say again that it is our duty, and our responsibility, as Virgin Islanders and Virgin Islands elected officials, to make the decisions that will shape our future. Many of the challenges that we face come down to personal responsibility and accountability. This is a problem across the territory, from businesses and taxpayers who avoid paying what they fairly and legally owe; to parents who fail to provide necessary guidance and supervision to their children; to prosecutors, or for that matter judges, who too easily throw up their hands and let criminals go; and to the adult criminal who use juveniles as pawns in their schemes, destroying young lives for their own selfish gain and protection. It is time that we bring our commitment to personal

responsibility to the issues of parental responsibility for the actions of their children, as well as the acts of adults who involve juveniles in their criminal activities.

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This has been a long speech, and it has been a tough speech. I have talked at length tonight, and in prior years at this podium, about the urgency of building a future for our Virgin Islands that is different from the past. I have spoken about the urgency of facing our challenges in economic development, in education and in public safety. And I have laid out a path to a brighter future, a future of opportunity built around a diversified, competitive economy.

I told you things that you did not want to hear, and that, frankly, I did not want to say, about the real challenges that we must overcome if we are to win that future. No one wants to tell people that we cannot afford to pay them what they think they should be paid, but the simple truth is we can't. No one wants to tell people that there isn't enough money coming in for them to be provided all they want, but the truth is there isn't. And no one wants to tell people the unpleasant truth even if everyone knows it to be true, because we all are afraid that people will not like us when we do.

This is the basic tension in a democracy. Leaders are elected.

But you and I in this room were elected by the people not just to do and say what would get us re-elected, but to speak the truth and make the necessary and right decisions. When the time comes for tough truths, for making tough decisions, as it has now, no one wants to be the one to do it. But that is our job. And that too is the truth.

I care — and each of you cares — about the lives and struggles of all who call the Virgin Islands home. But it is not enough just to care. We must also tell the truth and do what is right and what is required. And that is made hard every day because each and every day we hear not only the stories of those we would like to help as worthy individuals or as friends and supporters, but we also hear the constant clamor of those who would have us blame our troubles on someone else.

We have made great strides and we have grown as a community. Over long years we won the right to determine our future and today we are at last at the point where all who call the Virgin Islands home are working together to build a common and prosperous future. We have come too far, and worked too hard to win our rights, to now lose that future. We know — all of us know — that if we are to make it through these tough times, we cannot stand still and we cannot dream of “good old days” that never were, of days when others did for us or to us what today we are challenged to do for ourselves. We all know that to build the future we want for ourselves and our children will take commitment, and courage, and selfless acts, from each of us. But I know — and I believe you know — that this we can do.

Ladies and gentlemen of the 30th Legislature, our jobs are to make the hard decisions and to make them together. Let us begin that work today.

My fellow Virgin Islanders, we all know that we face great challenges. But we also know that we have the strength, we are given the strength by the Almighty, to persevere. And we shall prevail. Now, more than ever, we must move forward together. Let us move forward as one.

May God bless each and every one of you, and may God bless our Virgin Islands.