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OFFICE OF THE GOVERNOR

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**2008 State of the Territory Address by
Governor John P. de Jongh, Jr.
United States Virgin Islands**

**January 22, 2008
Earle B. Ottley Legislative Hall
Capitol Building, St. Thomas**

Members of the clergy, Senate President Richards, Honorable Senators, Lt. Governor Francis, Chief Justice Hodge and Justices of the Supreme Court, Presiding Judge Donohue and Judges of the Superior Court, Delegate to Congress Christensen, Chief Judge Gomez and other members of the federal Judiciary, members of the Cabinet and other agency heads, Mrs. Francis, my wife Cecile, other distinguished guests, ladies and gentlemen, my fellow Virgin Islanders.

I am honored to stand here tonight, as I appear before you in accordance with the Revised Organic Act of 1954 to report on the State of the Territory. It is particularly gratifying to stand before you tonight and give this my second State of the Territory address, as we have now completed our first year of progress under my Administration.

But before I begin my remarks, I would first like to take this opportunity to thank the one hundred and four Virgin Islands National Guard members who are away from their homes in Iraq and Afghanistan answering the call to duty so we can enjoy the liberties and freedoms to pursue our opportunities. I include in this thank you all members of the armed forces for the tremendous sacrifice you make for our families, at the expense of your families, and to let you know that while we may not express our appreciation everyday, you are in our thoughts and in our prayers. Last year was a time of reflection and acknowledgement of the responsibilities we all face as Americans. Last year, we paid our respects and laid to rest three heroes of our Territory: Lieutenant Colonel David C. Canegata, Sergeant First Class Floyd E. Lake, Sr., and Staff Sergeant Gregory Rivera-Santiago. These names are added to the over 60 Virgin Islanders who have sacrificed on our behalf since World War Two, and to their families, we say thank you. I request that we all give a moment of silent tribute in recognition of our heroes.

Thank you.

Today, we face great challenges in our Territory, just as we face great challenges across the world. As I stand here tonight, the U.S. economy sits on the verge of a recession, as the crisis that has emerged in the financial and real estate markets continues to grow and undermine investment, lending activities, and consumer confidence. A wide range of issues confront us, issues ranging from environmental challenges, to the impacts of globalization and free trade on investment and employment, to the fundamental question of how the diverse peoples of the world will live together in mutual respect and peace. These are challenges that we all share and that will affect all our futures and our children's future.

But today, here at home, we are working diligently to address many of these issues that confront us, as well as take advantage of the many opportunities available to us. We face these challenges, cognizant of the reality that we have only just begun our work, and that much remains to be done.

I can confidently stand before you this evening and say that the State of our Territory is one of determination and hope. There are uncertainties and challenges, and yes, at times our internal disagreements set us back from our collective goals, but we have all made the commitment to the people of the Virgin Islands to address the challenges we face, and despite these setbacks, to work for the betterment of our community. Our people have hopes and dreams for themselves and for their families. They have placed their trust—and yes their hopes—in us, and we must not, we will not, let them down.

Let me say it again, in the face of the uncertainties and the unsettled nature of things, the State of this Territory is one of determination and hope.

During 2007, we achieved a 3.6 percent increase in our Gross Territorial Product to \$4.1 billion, and there were 975 more jobs in the economy than the year before. And, to our benefit, most were created in the private sector. Fiscal

Year 2007 revenues were \$944 million as a result of higher income, business and consumer spending. However, these numbers are negated by basic expenditures that surpass revenues and many medical and social programs that require our attention, an unemployment rate that is still too high at six percent and a corporate income tax category that continues to decline.

Our status is not only rated by financial or economic affairs, but must also be gauged by our collective quality of life—how we live, how we treat others and how we see our future. Imbedded in this, however, is the unavoidable truth that the blending of the economic and financial affairs of each of us, in this small Territory of four islands and approximately 115,000 people, are tied to the same life-line either directly or indirectly; therefore, I am my brothers' and my sisters' keeper. We have no choice as a community but to face these challenges. We have begun to walk down that road together to fashion a better and stronger future, and thanks be to God, we have the strength to surmount all challenges.

I began my new Administration, as I would when approaching any new task, by assessing the situation that we faced, by setting a strategic direction, and by building a management team to lead our efforts. One year ago, I stood before you and discussed the depth of the challenges, and the condition of a government that was adrift. As we drilled down into the work of each agency, I can only say that the problems are worse, not better, than we imagined. In each agency, there are government workers who are smart, diligent and dedicated, but who work within an organization that is dysfunctional, that often reflects a culture that disregards the needs of the very people it is charged to help, the same people who put their faith in us when they elected us, and who pay our salaries.

As Governor, I have utilized three organizing principles to help focus our efforts. The first is to fix a broken government. To make our government work, to restore our finances, and to restore local control where it was threatened, or in some cases lost.

The second is to create economic development built on real partnerships between our government and the private sector. To build the jobs and income and wealth creation on which the future of all Virgin Islanders, their families and our communities depend.

The third is to bring order out of chaos. To put fully into practice the principle that we are one government, and that the central government—for which you serve as the Legislature and I sit as the chief executive—must set the policy and direction for all of our agencies and authorities.

As we began our work, we set forth a range of objectives, ranging from those actions that we could take quickly and unilaterally to address smaller issues, to those larger challenges that required retooling, new strategies, new people, and that would take years before our goals would be realized.

One year ago, in my first State of the Territory address, I set forth a number of goals and promises. These were promises that I had made to the people of the Virgin Islands when I campaigned to be your Governor, and on many of those we have made great progress, while on others, we have just begun to sow the seeds of reform.

At that time, I promised to begin to coordinate the work of our independent agencies. And we have done that.

I stated that it was time for leadership that would return the focus of those agencies and authorities to the work of the people and away from narrow self-interest. And we have done that.

I stated that we must revamp our federal relations and strategies to improve our effectiveness in delivering vital funds and resources to our people. And we have done that.

I suggested that we must work vigorously to rebuild our relationships across the cruise industry to bring that vital industry back to St. Croix. And those efforts are beginning to bear fruit.

Other initiatives have been sent to you for your action and approval, and I look forward to your completing property tax legislation promptly, and approving the creation of the new department of Sports, Parks and Recreation.

On other important challenges, we are just at the beginning of a longer journey. Last year, I set forth a goal that within five years all fourth graders must be reading at grade level. That goal—which is critical to the future both of our children and our community—is one that will take years to achieve.

On the other hand, the path to returning our Housing Authority and housing communities back to local control has been a rough journey. This issue has consumed much time and has been a source of great disappointment, as have been the endless meetings that I have held with federal officials on this matter. And with the presidential elections this year, I have no doubt that there will soon be a whole new group of people that we will have to work with. But we will keep at it, we will wear them down, and we will not stop until we do.

I promise you this. One day, I will sit down as Governor with a new head of the Virgin Islands Housing Authority. And that person will be a Virgin Islander. And that person will report to a local board. And we will have taken back Williams Delight. And we will control the thirty-four acres in Fortuna. And we will once again be in control of our housing communities, and in control of our future.

As it should be. As it will be.

It is not my intention here to walk through the entire set of goals that I set forth a year ago, but rather to say that we are making progress. Many have been accomplished. Others are in progress. None has been set aside.

Crime is a continuing problem that demands the commitment of all of us across the community. I have heard the numbers, both good and bad, but we all know that statistics do not convey the emotion or the full story, and no matter what progress we have made, it is not enough. The fear and anxiety that people feel in their homes, and on the streets, are more important measures of where we stand than the numbers that are published from one month to the next or in a year-end tally.

I am not now—and have never been—in the business of “explaining away” the acts of violent criminals. Our goal is to prevent crime and punish criminals. To do the former, we must turn to parents, to families, to teachers and coaches and say, “We must all do our jobs, and do them better.” To punish criminals, we must first catch them, and then prosecute them. We know what to do and we are tackling the problem in a number of ways.

First and foremost, visibility, consistency and a zero-tolerance policy will be the norm and not the exception. Road stops, coupled with road-blocks, increased camera surveillance, more bike patrols and more police on their feet and not in their cars have been seen and will continue to be seen. Part of this, the inadequate response times, the lack of bodies when and where we need them, is a pure numbers problem. We have reached out to retirees to tap their experience and continued energy level to be of assistance in specific areas.

We have re-instituted the police auxiliary force and will be establishing a police cadet corps, geared to bringing our young men and women into law enforcement at an early age, while getting our police officers out in the community and participating with our youth. And we have formed our Cold Case Unit to investigate some of the older cases that remain unsolved and established a task force with the U.S. Attorney’s Office to share resources and gain greater access to federal resources. We will also be modifying second job policies applicable to the Police Department to ensure that we are getting the best effort and talent of our officers.

And we are rebuilding the ranks of our law enforcement personnel, police and prosecutors. At long last, we are now in a position to hire experienced police officers from outside the Territory.

We will also dissolve the Narcotics Strike Force and allow their personnel to apply for other positions in law enforcement. Our resources are too thin to have separate similar duties among multiple agencies, and we must give the Police Department the resources to do its job, so that we can in turn demand accountability for its performance. During the past year, the Virgin Islands Police Department worked effectively with the federal Drug Enforcement Agency to seize illegal drugs and arrest those involved. They undertook territory-wide efforts, which netted almost twenty thousand kilos of marijuana plants, more than twenty kilos of cocaine, and seizures of crack cocaine, heroin, and even steroids. Our actions will strengthen the Police Department’s abilities in this area.

We have made real progress in rebuilding the relationships across the criminal justice community that are so essential to the effective prosecution of crime. With the involvement and guidance of the Delegate, we have gained the support of the U.S. Customs and Border Patrol to add additional personnel in the Territory to stem the flow of illegal immigration to our shores. The Police Department, the Attorney General’s office, the U.S. Attorney, the Inspectors General and other federal law enforcement agencies are all sharing information, allocating resources and cooperating in the wide range of investigations and prosecutions that are necessary to send the signal that crime will not pay, criminals will be made to pay for their acts. And, that acts have consequences and bad acts have bad consequences.

With respect to Corrections, recent hearings and continuing federal litigation have kept the terrible reality of our problems constantly on the agenda. I concur with the recent action of the legislature in setting a date two years hence for Corrections to be moved to a separate bureau. I look forward to working with you to assure that the legislation will provide a clear path forward. In the meantime, we must rebuild the manpower, fix the physical plant, and provide healthcare, education and training to our inmate population, so that our prisons can meet federal standards and operate safely and legally.

In the Department of Justice, we have reached out and actively recruited attorneys to build our staff and capabilities of the Department to investigate and prosecute. We have gone from twenty vacancies to four as of the close of calendar year 2007. We have attracted experienced and qualified personnel to continue improving our Justice Department.

But most of all, each officer in law enforcement and each attorney in the Department of Justice—like each government worker across the government—needs to embrace their duty to each citizen of the Territory. Because in many ways the deepest problem that we face is one of attitude and culture. For too long, disdain and disregard have been allowed to become the culture of our organization. We no longer demand the very best of ourselves and of each other, and we no longer look upon each person who approaches us, whether in need of services or of help, and see it as our job, our duty, to help them solve their problems, and to be of assistance both respectfully and competently.

Only when we respect each person we encounter, will they respond and look upon us with respect in turn. We must have high expectations, set high standards, and all of us must be accountable for our actions.

And as we demand this high level of service and commitment from our government employees, we must also acknowledge that management has responsibilities and must do better. Training is needed and will be provided, succession planning is required and is being put in place, and we will no longer ignore the physical conditions of the work environment that have been ignored for too long. That is why since January 2007, the Office of Collective Bargaining has successfully negotiated with our registered nurses, school administrators, assistant attorneys general, Fire Service supervisors, and police officers. Negotiations are ongoing with our teachers and AFT professionals, and are commencing with the officers of the Bureau of Corrections.

Our commitment to our employees also requires that—once and for all—we determine what is owed on the retroactive salary obligations so long ignored. The strength of any organization is its employees, and my commitment to my employees is to provide them with the best working conditions so that they in turn can provide the best services to the community. For we recognize and respect that public service is a public trust.

And, as we have seen with the recent indictments—brought not just by the federal government but by ours as well—issues of corruption are now being aggressively pursued. Let me assure you that what you have seen is just the beginning. I view white-collar crime and corruption as the crime that it is. Corruption, and particularly governmental corruption, undermines our most basic responsibilities. It robs us of resources to invest in our students and teachers, in our hospitals and health clinics, to meet the needs of those with special needs, to fix pot holes and provide the essentials to improve everyday living. Even more importantly, it shakes the confidence and faith of the people that we were elected to serve.

Public corruption is the most selfish act that one can commit. We have found evidence that corruption reached into the highest levels of government. We have spared no effort to unearth evidence of specific acts, and we will prosecute those involved. We must restore both the effectiveness of and confidence in, our government. We are handling public funds and undertake our responsibilities on behalf of the public. Ours must be and ours will be a government of accountability. This is a promise I have made repeatedly, and this is a promise I have kept and shall continue to keep.

In the area of education, I am proud that Dr. LaVerne Terry accepted my offer to lead our Department of Education. A successful confirmation process will represent the final piece of the puzzle, as we will have a full complement of commissioners. If Education has taken the longest—and it has—it is a signal of the importance that I placed in finding an exceptional person with the necessary broad range of experiences to lead an institution of astonishing potential and immense responsibilities in our community. Education reform was a cornerstone of my campaign for Governor, and it is one of the most important commitments that I have made to the people of the Virgin Islands.

I firmly believe that education is the critical element in each child's future, and it is the responsibility of all within the Department of Education to provide the best to each student, and to give them the tools to function in a highly competitive world. It is the key to our aspirations as a community, and is the underpinning of the future opportunities open to each of our children. Over the last ten years, we have witnessed a decline of thousands of students in our public school system, yet we maintain the same number of teachers and staff and schools. At the same time, our physical assets require either extensive investment in renovations or new structures. And lastly, let us acknowledge

two more things. First, when measured in the Annual Yearly Performance reports—the AYP numbers—we are making some progress. However, we also know that other real measures show that much more needs to be done. But please know, that for me, this horizon will always be moving, and nothing will ever be too good for our children.

All other ingredients of our future, the economic development of our Territory, the diversification of our economy, the fiscal health of our government, the prosperity of our families, and the retirement security of our workers—indeed the very quality of life and safety of our community—are affected by our success in improving our educational performance. The only way to a sustainable future is through education. Our quickest route to increased wealth and economic opportunity is through the education of all our people. The education we provide today must respond to the demands of a competitive world, quite frankly, an uncaring environment. A world that our children must be equipped and prepared to conquer. We must retool our education system to build knowledge, relevancy, rigor and discipline, and the values and attitudes that success and advancement in the global economy of the 21st century demand.

Our educational system must reach and support each child. Professional development of our teachers and administrators is an ongoing area of investment and personal responsibility. We must create the environment that reinforces the value of education as a lifelong activity. I am confident that hundreds of teachers, paraprofessionals and administrators in our public school system share this goal—and shall achieve it.

And many do now. It is my pleasure to acknowledge tonight the well-deserved selection of Mrs. Elen Benjamin-Francois, of the Career and Technical Education Center, as the St. Croix Teacher of the Year, and Mrs. Kimberly Sierra, a fifth grade teacher at the Joseph Sibilly Elementary School, as this year's St. Thomas and St. John Teacher of the Year.

Thank you to you both, and keep up the good work.

We are also moving ahead with new capital investment in our schools. We have begun the planning for the new location for Addelita Cancryn Jr. High School. This relocation process is long overdue, and this investment is in the best interest of our students, the school's staff and the community. A new use for this land for the siting and construction of a major cargo trans-shipment facility is being discussed by the Port Authority. This is certainly a win-win situation, one that will allow for the construction of a new and modern school, and at the same time improve our competitive position in the Caribbean.

We are also moving ahead with the new school for St. John, and are working with the Delegate and our congressional allies to gain the cooperation of the National Park Service in providing the land that is necessary.

This year, much has been accomplished. For the first time in memory, the schools opened on time, with summer maintenance having been completed. The summer maintenance program is now part of the annual budget, as it must be, and as I promised it would be. We have hired one hundred and ten replacement teachers. We got our federal grant applications approved, on time, assuring access to \$45 million of federal funding. We remain cognizant of the accreditation process for our high schools and the capital investment required, and fully support the work of John H. Woodson Junior High School and Bertha C. Boschulte Middle School to achieve accreditation from Middle States.

We are also committed to our career and technical track, and plan changes to the Board of Vocational Education and the completion of the vocational education state plan. I am especially proud of the partnerships that we have formed with the Marine Action Group and Rotary Club on St. Thomas, and the Ocean World School and its Schooner Roseway on St. Croix, to expose our students to opportunities in the marine area. And, when we get our house in order, the third-party fiduciary will be able to go home. As I said earlier, Education Reform was a heartfelt promise that I made to our community, it is a promise that I am keeping, and it is a promise I will continue to keep.

Beyond the Department of Education, we are well aware that the issue of maintenance and capital investment is one of critical importance. As we all know too well, Public Works has a deep backlog of work, the most visible sign of which is the condition of our roads, especially those that continue to be washed out by the rain and those that are the product of poor construction, as they require re-patching every couple of years. We are now addressing the critical issue of drainage in each area where we embark on road repair. This is an important step to address safety issues, to improve the capacity of roads to withstand the weather, and to assure that we get the most value out of the dollars we spend on our roads.

As we did our investigations into the area of capital investment, it was startling to realize how little investment was being made across the territory by the central government itself. Part of this was a consequence of management

failure, and certainly part reflects the unacceptable reality that many private firms who could play a role in our capital program have declined to participate.

They have lacked faith in the fairness of government bidding due to cronyism and the chronic failure of the government to pay on time. It is not that others cannot build, and build well and quickly—you can see that by looking out of the windows of this building to the new Yacht Haven and Frenchman's Reef developments—it is that the Virgin Islands Government has been unable to do so. We are going to fix this.

We will be addressing this from two directions. We are now near completion of a multi-year capital investment plan that integrates all areas of funding available to the government, and prioritizes and funds projects across all agencies and departments. This plan projects the expenditure of \$700 million dollars in our critical capital infrastructure over a six-year period. This money will be spent across the board, with the largest areas of expenditure in solid waste, wastewater, education and transportation.

At the same time, we are building the Department of Public Work's capacity to implement project management to support the design of new facilities, and to ensure the talent and resources are available to build and maintain capital facilities. A new capital projects unit within Public Works will ensure its involvement from concept to contract execution to project completion.

Our central government must regain its capacity to build things—big things or little things—to fix things—big things or little things—and to maintain what we build. I take no comfort in the fact that across the United States infrastructure has not kept up with growth, because we have no excuse locally. I know that our businesses and our workers can build well and efficiently if properly managed, especially in those areas where we have the money.

Addressing traffic and transportation issues is critical to both our continued economic development, and our sanity on a day-to-day basis. I am as irritated as anyone else when I see long unmoving lines of cars stuck trying to get through the Mandela Circle blockade, or through town, or down Raphune Hill, or past Sunny Isle and Sion Farm, or the haphazard performance and uneven quality of the ferry boat providers, or the costs of air travel between St. Thomas and St. Croix.

We are now examining this issue on a comprehensive basis, encompassing roads, parking, water, and inter-island transportation. In 2007, we provided operational funding to ferry services between St. Thomas and St. John and submitted a federal grant request to support the modernization of the ferry system because our people deserve safe, reliable and timely service. In 2008, we are doing the same and much more, and are in the process of supporting our request to the Federal Highway Administration to ensure that the St. Croix to St. Thomas waterway is part of the highway system. We have started road projects, and will shortly be altering downtown taxi and vehicular traffic patterns, following the suggestions of the public-private Charlotte Amalie Revitalization Task Force.

Looking ahead, with the U.S. economy on the edge of a recession, our capital investment program will become a key component of our economic development and job creation strategy, and the engine we will need going into what may well be a period of several years of economic slowdown. That is why we are reconfiguring our focus at the Government Development Bank to provide performance bond support to our local contractors and applying to have it designated a certified development corporation to support the commercial banks in lending to small businesses seeking to expand.

These efforts are also applicable to the difficult issue of affordable housing. Building our local contractors' bonding capacity and encouraging active funding participation by our commercial banks will help with this issue. In addition, we are working to make government money available to reduce infrastructure costs related to subdivision and residential development—both directly and through tax increment and special district financing—in support of local housing efforts. The Legislature's work in this area in consolidating our housing agencies will permit us to more efficiently spend over \$16.0 million for affordable and moderate-income housing.

We have made strides in other areas. In agriculture, we have filled vacancies and provided resources to a department that has long been unable to provide needed services. While our work in this area is not done, I am much encouraged when I hear directly from farmers that there is an improvement in services, and resources are being tapped on a consistent basis. To help protect our local fishermen, we have become fully involved with the Caribbean Fishery Management Council in order to prevent actions such as those that have closed fisheries, and we have worked with the British Virgin Islands to address inter-island issues that have gone unaddressed far too long. We have strengthened the infrastructure with business assistance and educational programs to our farmers in order to set the foundation for 2008. We also identified and secured acreage in Coral Bay, St. John to lease to residents interested in

crop production—a first time opportunity for St. John residents. We were also successful in getting federal legislation amended that will allow for us to apply for funds to which we have historically been denied access.

In other areas, our efforts are taking more time. Our healthcare system of two hospitals, two health centers, two clinics, a department, a cancer center, a soon to be completed cardiac center, and a government health insurance plan for its employees and retirees, requires approximately \$100 million in annual funding; yet, issues of access, availability and effective education are still areas of concern. Healthcare and health insurance remain a fundamental and systemic challenge. Solutions to the problem of uncompensated care in the Territory cannot rest solely on either the General Fund or the backs of our small business community.

Certainly the business community will be called upon to work with us in addressing the problem of the un- and under-insured. But we are also building a strategy to maximize our federal revenues for health needs and our funding opportunities beyond our presently limited Medicaid and S-CHIP programs, to assure that we receive our fair share of all other available funds.

As we have examined federal programs across the government this past year, we have found funds that we are eligible for, but which in the past we have failed to request or to spend. We have found funding programs for states that were not available to us as a territory, and we have worked to have the rules changed to enable us to access our fair share of federal resources. And most importantly, as in the case of Medicaid, we have identified funds for which Virgin Islanders were directly eligible but were inaccessible to those most in need. No longer do the seniors from Marley, or anywhere else, have to go at five-thirty in the morning, once a month, to reapply for what they are entitled to each and every month. At a time when families are facing financial hardships, due to the cost of gas, or WAPA bills, or job pressures, we must as a government leave no stone unturned to identify and provide people with information about programs and funding that are available to them or to us.

Additionally, I shall establish a Children and Family Council. This Council is needed to develop a holistic approach to supporting our children and improving their school readiness and early learning. The statistics of children in poverty, of teen pregnancy, of truancy and graduation rates, and of youth violence, all demand this new approach to how we support our children and their families. Our efforts in this area will be supported by the Annie E. Casey Foundation and the National Governors Association. I have asked the First Lady to serve as the chair of this vital inter-agency, public-private, effort, as similar efforts in the states have been led.

As we engage in these sweeping efforts to improve the quality and effectiveness of the delivery of essential services, it is time that we all broaden our awareness and vision to embrace the needs of those with disabilities. We must embrace the true spirit of the Americans With Disabilities Act, and work to create a government and a society committed to improving the quality of life, access to services and facilities, and equal opportunity in employment, for those with disabilities. Improving their quality of life begins with each of us stepping out of our comfort zone and recognizing the unique challenges that they face each and every day. Through planning, coordination of services, and effective communication we can alleviate fears felt by many in that community that we will not be there for them when they need our help most.

To address the needs of the homeless, we worked with United Way to host Project Homeless Connect, to link individuals in need with vital social services. In one day, several government agencies, sixteen different community organizations, and over two dozen businesses came together to provide key resources and services to those in our community requiring our assistance. How we are judged as a community is not by what we do for those who have, but what we do for those who need.

Turning to our efforts in economic development, I am pleased with the success on the multiple initiatives started to capture the potential of each island. I am pleased with our work with the cruise industry over this past year. Over the last three years we witnessed our share of passenger traffic remain essentially static, even though the Port of Charlotte Amalie remains one of the most popular in the Caribbean. From 2003 through 2007, we have continued to have no meaningful traffic to St. Croix and St. Thomas' numbers remain at 1.8 million annually.

While this situation is admittedly a function of an industry that is shifting its assets during our summer months and that has been able to generate higher profit margins by re-deploying ships to Europe, it is not one where we can adopt a 'wait and see' attitude. We must create our own opportunities for success.

We have reached out to our partners at the Florida Caribbean Cruise Association and agreed on the membership and scope of a working group to serve as the vehicle for discussions on a wide range of issues, including territory-wide passenger growth, and land-based concerns ranging from transportation access to security and shore excursions, all to ensure that issues that affect our communities are dealt with openly and effectively. We have been successful in

heightening the interest of this critical industry in returning to St. Croix with two cruise lines announcing plans to send ships to Frederiksted, and we are now working with other companies to build regular and ongoing cruise traffic there. These efforts have been made possible by the new and effective commitments of the management and boards of the Virgin Islands Port Authority and the West Indian Company to work together on behalf of the overall welfare of the Territory.

Similarly, we continue to maintain and foster our relations with the current air carriers that service our islands. We have been able to maintain airlift to the Cyril E. King Airport at a time of constant upheaval and airline combinations, while mindful of the need to do the same at Henry E. Rohlsen Airport. We are very close to an agreement for new regular direct air service into St. Croix in the fall. Opening this gateway with direct flights not only results in a level of competition that will lower air fares for St. Croix, but also opens our island to many more visitors.

While the wisdom of proceeding with the Christiansted By-Pass project has been a concern for many, I am of the belief that the redevelopment of Christiansted will be enhanced by the implementation of the Christiansted By-pass. This project will serve multiple objectives, diverting heavy truck traffic from our historic town, expanding the options to address parking and congestion, and improving the quality of life and allowing for real urban redevelopment opportunities. Christiansted will be enhanced as well by the extensive renovations of the historic Club Comanche property, the completion of the Kings Alley Hotel, and the ownership changes at the Anchor Inn and Kings Alley walkway properties.

Couple this activity with the continued improvements at Joseph Alexander Square, and the near completion of a new business center across from D.C. Canegata Park, and we have circled an area of opportunity. This is further matched by the opening of an OfficeMax and a K-Mart appliance store, the recent activity of Home Depot to secure a place on St. Croix, and the start of a new housing development right next to the property, all indications of a positive environment.

Our ongoing public-private efforts to continue the redevelopment of Frederiksted will, we feel, make Frederiksted the entry port to St. Croix for an ever increasing flow of cruise ship passengers. These efforts, which I am confident will be successful, will lead to new opportunities for local businesses to develop the land-based attractions critical to growing this industry in Frederiksted and throughout the island. This overall level of activity is consistent with the estimated construction activity for St. Croix based on 2007 permits which are up by \$25.0 million compared to 2006, and higher than St. Thomas' estimated activity by \$67.0 million.

Also on St. Croix, I wish us to be more active in pursuing the potential of the untapped assets of the fiber optic networks that come ashore on the western end of the island. These permit our entrée into a new world of knowledge-based businesses to diversify our economy and broaden career and entrepreneurial opportunities for our people. The University of the Virgin Island's Research and Technology Park's relationship with Global Crossing and its broadband cable capacity makes it possible for e-commerce companies to have a world class data center here, and for local providers to connect to it, too. The Tech Park's recent agreement with Baltimore Technology Park to provide web hosting and other data center services from the Tech Park's Global Crossing facility is the first step towards the realization of this goal. Also, the conduit originating at WAPA's Richmond plant that presently stops just three miles short of the bandwidth assets in the west presents a tremendous opportunity for government involvement and joint venture possibilities elsewhere on St. Croix.

In the area of Tourism development and marketing, we have made fundamental changes in how we approach our partners and how we market to our visitors. We will not wait for them to come to us, we have decided to go and seek them out. Our overall territorial strategy is to grow the number of tourists that visit our islands, but also to acknowledge that each island has its own unique offering. We aim to increase cruise ship passengers to St. Croix while attracting more affordable air lift, and anticipate that in 2008 at least two of the proposed hotel development projects will put a shovel in the ground. Our efforts with the Marine Action Group and World Ocean School, and more focus on career and technical education, are indicative of the potential we attribute to the marine industry, especially with the completion of Yacht Haven, the re-development activity planned for Gallows Bay and plans for marinas on St. John.

Towards this objective, we underwrote a St. Croix-specific air credit program in partnership with our local hotels. In St. Thomas and St. John, the objective is to stabilize our cruise ship traffic with a focus on summer activity and to ensure continued affordable, and direct, airlift. We have also begun to close our stateside tourism offices and established regional sales teams with the responsibility to visit travel agents and major tour operators, and we have entered into international marketing agreements targeting Canada, Italy, Denmark and the rest of Scandinavia.

On St. John, we have funded the principal planner position and are again advertising the position. We have met with the Urban Land Institute so that they can assist us in jump-starting the planning process once the St. John planner is on-board. The island of St. John offers a unique experience to both visitors and locals. It is now time for us to tap this potential as a positive and to toss away the restrictions that have blinded us to the possibilities.

The land ownership of the National Park must be taken for the positive role that it plays and the reality that it represents to our economy. The National Park must be seen to be, and must as act as, a part of this community. Yet, as we re-define and re-establish these relationships we must also keep our house in order and acknowledge that on St. John we have allowed certain development to proceed that can be viewed as nothing short of questionable and threatening to the environment, and therefore more in the interest of special interests than the overall community.

But that was yesterday; today we must push forward with development that is consistent with the environment and within the legal rights of landowners to undertake. The role of the principal planner will be paramount to our project analysis and execution in resolving the issues of Cruz Bay parking, taxicab dispatching, relocation of the Sprauve School, public land usage, marina development, and affordable and moderate-income housing. And each requires improved provision of Government services to the public as well as greater coordination of those services which are provided by licensed private businesses, especially those who have been granted franchises or who are using Government facilities or Government property. But, I also know that we need to do more for our senior citizens and children. I have heard the shouts of young St. Johnians to fix their basketball court and field, and provide more recreational programs. And with the signing of the lease for a senior center between the Virgin Islands Housing Authority and the Department of Human Services, we have begun to address concerns raised by our seniors.

To the residents of Water Island, I would like to assure you that our efforts to provide an appropriate dock facility continue. I was pleased to receive the report that the boat ramps have been poured and that we are only a month or two away from completion. And we are mindful of the many basic services that are provided by the community on a volunteer basis, and for which more funding by the government is required. We have also received the planning study with respect to broader land-use questions from the University of the Virgin Islands and trust that this will prove useful as we move ahead.

As we pursue these efforts, it is time that we begin to shift our approach to economic development and look at new ways to target our utilization of tax incentives. Traditionally, we have looked to the Virgin Islands Economic Development Authority, and specifically, the Economic Development Commission, to grant tax relief to new businesses, and empowered it to monitor the local hiring and purchasing that comes in exchange for these tax incentives. This tool, however, has in many cases proven to be too blunt an instrument. Whether due to lax compliance monitoring by government agencies, or the pushing of the envelope by the beneficiaries to the outer limits of the program, the fact is that in the last two years, many EDC beneficiaries have closed their doors, requiring many of our families and friends to seek new employment, and in most cases not at the same salary level or with the same career opportunities. We have executed a multi-pronged strategy to stabilize our incentive program and set the foundation for growth.

First, those EDC beneficiaries that adhered to the rules must be protected, and we are advocating for them and for our mutual benefit. Second, we initiated discussions with both the Internal Revenue Service and the United States Department of Treasury to gain common ground that is essential if we are to have a stable business environment. We are working with our EDC companies to address the difficult issues that many of them face with the IRS, and to assure that IRS actions and audits are resolved quickly. And, lastly, we have worked with the support of the Chairman of the House Committee on Ways and Means, Congressman Charles Rangel—a true friend of the Virgin Islands—many other friends in the Congress, and the participation of Delegate Christensen, whose assistance I gratefully acknowledge, to assure that the tax laws are made clear and that our Virgin Islands taxpayers receive the same treatment one would receive no matter where they live under the U.S. flag. We will not condone fraud or abuse, but we believe that working cooperatively much can be done to coordinate the activities of our tax authorities and the Federal authorities.

And just as we must target tax incentives, we must target tax collection. Our financial condition is precarious. This is a subject about which I have spoken before, and as I have said many times in my veto messages, we must take our financial responsibilities seriously. We cannot spend what we do not have, and we cannot have what we cannot afford. We need to collect the taxes we are owed. And we must be sure that everyone knows that taxes are not optional. Fair and consistent tax collection will increase our revenues. Much needs to be done in this area, as was recently highlighted by a scathing federal audit of our Bureau of Internal Revenue. These problems will be remedied.

As to taxes, it is time to talk bluntly about real property taxes. I have sent you a bill which awaits final action. We are all aware that the increase in property values across the Territory, and especially on St. John, created a problem that had to be addressed. This is why my proposal went to great lengths to mitigate the impact of the new property valuations

on the vast majority of our home and property owners. The Legislature has passed a budget that included the revenues that were to be generated by real property taxes, well aware that real property tax reform was a precondition, a required first step. It is now time to take that step. We cannot pretend that the budget for the Government of the Virgin Islands passed by this Legislature, signed by me, did not include an increase in real property tax revenues.

As to the topic of the budget, I have stated over and over again that we must adhere to our budget rules. We have a budget, and it is funded by the revenues that we collect each year. Cash in the bank is not a revenue stream, and cannot be appropriated outside of the budget process. The budget can be amended, but money can only be spent once— it cannot be 'sliced and diced.'

Part of this problem will be resolved once our financial systems are in place and our audits are timely. The implementation of the new financial management and accounting system remains a great challenge. The implementation has had problems of connectivity. We have had to redesign several elements of the system that we found, in many cases going back to step one, because it was being executed in a manner that was a simple overlay on our existing practices and flow of business activity. That is to say, it was replicating rather than fixing what was broken.

We have, however, made progress, and we have closed fiscal year 2007. A first step, but progress nonetheless. Additionally, our audits for fiscal years 2006 and 2007 have commenced.

And with full collections, and the discipline of good budget practices, we will be able to fund and continue to fund many of our initiatives. The passage of the budget and our implementation will be closely monitored by adhering to performance-based measurements that drive our decisions. We are not fully at the level of performance-based budgeting that is needed, but each budget cycle provides reliable data to serve as a baseline on our performance.

However, to do any of this effectively, we must rebuild an efficient government. We are one government that has the same taxpayers, ratepayers and fee-payers—we are a connected community. Within the government and its agencies, and across its independent authorities, policies are no longer at the discretion of individuals setting their own course, or boards serving an isolated interest. We cannot succeed if we let our petty disputes and parochial interests trump our collective endeavors and undermine the public good. I told the people of our community that as their Governor, I would change the way government worked to better serve them. The people's voices were overwhelming in their demand for more accountability and efficiency in our government, and I will continue to work towards that goal. Proper coordination of policy will not occur overnight, but it is happening, and it will happen. As Governor, I will honor the will of the people.

It is now time for us to tackle the issue of the Waste Management Authority. That Authority was created with the expectation that it would provide a self-financing vehicle that could efficiently and effectively address the solid waste and wastewater management needs of the Territory. While this may have been a laudable goal, it is now clear that the Waste Management Authority has not become, and holds little prospect of becoming, financially independent. Additionally, there are the costs of the legal, fiscal and other infrastructure necessary to operate an independent organization, all of which drain resources from its core mission and are funded from the General Fund.

Simply stated, it is not and will not be self-sustaining. It is expensive. Its annual budget has mushroomed. It is the largest user of our scarce capital resources, and we are paying for it through the General Fund and will continue to do so for the foreseeable future. It is an entity that is neither semi-autonomous nor is it independent, and we must acknowledge that in a Territory of our size and resources, where the same pocketbook pays for many services, there is no reason to continue this illusion.

I will submit legislation and ask for your support to disband the Waste Management Authority, and reconstitute it as the Waste Management Agency within the central government. This change will allow us to dedicate resources and management focus to its core mission, its director and senior management team will benefit from clear and direct communication with respect to priorities, and it will create clear lines of accountability.

The new Waste Management Agency can even keep the same license plates, but it will not keep spending General Fund monies without central government supervision. If there are problems related to procurement, we will fix those problems. And if there are questions of credibility with federal officials, I will address those personally and directly.

I would also ask that you move expeditiously to finalize the creation of the Department of Sports, Parks and Recreation. We have started the design process and are currently working on the new Clinton Phipps Racetrack. We have included additional funding for Paul E. Joseph Stadium in our capital plan. We have supported appropriations for cricket, and fostered inter-island and regional competition in volleyball, supported the chess team when it competed in Greece, and have and will continue to heighten the awareness of and need for more community involvement in the Special Olympics. We have met with the Virgin Islands Olympic Committee to determine the needs of the various

sports federations. We look forward to cheering on our elite athletes in Beijing. We have joined the National Recreation and Parks Association, and stand ready to do more because more is needed. The establishment of this new department is as critical today as it was when I asked for your assistance last year. All must agree that we must do more—especially for our youth—through coordinated efforts in this area. We need this department to tap into the potential of our children in areas from basketball to baseball, from cricket to golf and from tennis to music, to sailing and all activities in between.

We need also to refine government structures in other areas. Each year we face the prospect of natural disasters, and from June through November we are all fearful of storms and hurricanes. Our preparation is heightened and our focus is intense for this period. However, the reality is that emergency management requires even more focus and consistency year-round, as its portfolio has expanded and adjusted to the world in which we live. We must be concerned with chemical leaks, utility malfunctions, bird flu, terrorism, and various other incidents of community concern. Therefore, I am asking for this body's support to remove the Virgin Islands Territorial Emergency Management Agency, VITEMA, and the Office of Homeland Security, from the Virgin Islands National Guard. This reorganization, together with the implementation of improvements to our 9-1-1 emergency communications system by the end of this calendar year, will improve the effectiveness of our combined emergency first responders. It will also allow the Adjutant General to provide more focus on the Guard, which has deployed more than five hundred fifty soldiers and airmen to the Global War on Terror, and struggles to meet increasing demands on its mission.

There are a number of other very important issues that we plan to tackle on our agenda for this coming year.

Few topics are more pressing on us these days, either as individuals or as a government, than the cost of energy. It is a concern that cuts across our entire Territory, impacting everyone who lives in or visits the Virgin Islands. We are impacted directly by the cost of utility services and that of gasoline, but also indirectly in the cost of groceries, airfares, and other essential purchases. Quite frankly, it siphons away our disposable income and our ability to save for other purchases or to provide for other needs.

With the guidance of the Virgin Islands Energy Office, we initiated several actions to set a course that will address the long-term costs of energy in our community. A customer of the Virgin Islands Water and Power Authority utilizing five hundred kilowatts per month—the standard residential usage—is paying \$157.44 per month, which is more than someone in Saint Lucia, but less than a ratepayer in Dominica and Bermuda. For all of us, this is too high. As a community that is dependent on oil to produce electricity, we will not have an impact on this commodity's world prices, but we can do a better job on how we meet our energy requirements. This will require a change in our personal habits, an educational campaign on the options, and, most importantly, action over rhetoric.

However, let's be honest with each other, to go ahead and institute a cost control on WAPA, by freezing the LEAC at a time when the per barrel cost of oil changes daily, is tantamount to saying we are ready to sell the Authority, because it will soon be bankrupt. Furthermore, to arbitrarily allocate \$25.0 million to WAPA will reduce neither next month's customer bills, nor government payables. Yes, the Government must pay its bills and we will. I have instructed the Office of Management and Budget and the Department of Finance to also include the obligations of our hospitals in this number which brings the aggregate amount to approximately \$13.5 million.

We have initiated several actions to set a course that will address the long-term costs of energy in our community. Through their own initiative and this body's resolution, we will be sitting down with the leadership team at HOVENSA, and have expanded the group to include officials at St. Croix Renaissance and WAPA, to determine collectively an approach that is mutually beneficial. We have met with the U.S. Department of Energy and they are assisting us on several fronts, including support from one of their national laboratories for technical assistance in the development of an inter-island electric grid. This effort is supplemental to the recent issuance by WAPA of its Request for Proposal to over ninety-nine firms for alternative energy proposals, and its waste heat boiler coming on line in the last quarter of this calendar year.

Government, as a customer of WAPA, is also developing a comprehensive plan to promote energy conservation and efficiency within our government agencies. Our initiatives will range from short-term measures such as replacing incandescent bulbs in government facilities and managing air conditioning utilization, to longer term strategies including installing renewable energy net metering systems and migrating to the use of hybrid vehicles in our fleet.

These initiatives will help us achieve the recent legislative mandate to reduce the Government's utility usage by 20% over the next four years.

Increases in energy costs, and the most recent twenty-two percent increase in WAPA rates, have especially affected our retired government workers who live on a fixed income. In order to address this situation, we will be submitting

legislation to provide an increase in the cost of living adjustment in their pensions, and provide the required funding through a dedicated revenue stream.

As we consider how to best address this very real situation, I am cognizant of the burdens that we place on the system, given the fact that for more than a decade, the Government has under-funded its required contributions, even as it has increased benefits from time to time. We must balance the need to provide relief to our retirees while continuing to address the problems faced by GERS.

This year, you approved legislation increasing the employer contribution rate to the Government Employees Retirement System, as I requested. However, the comparable increase was not approved for the independent agencies. I will say again, as I have said before, the efforts that we make can no longer be discretionary by our authorities. We have established a set of policies to address the massive pension under-funding problem that we face, and these policies must be adhered to across the board.

We are all dealing with this problem, and we must all participate in the solutions. Just as we raised the government's contribution rate this year, we will continue this pension restoration effort over the coming months with our planned issuance of pension bonds, now scheduled to go to market in June—subject to a required federal modification to the Revised Organic Act. This system is massively under-funded, all must contribute to the solution, and we must restore the system back to fiscal health.

I would like to commend you on your approval of the legislation that sets aside funding for retroactive pay, and establishes the commission charged with the important task of developing the data and strategies for a solution to that issue. Let me say that it is my intention to find the money and finally resolve the retroactive pay issue. Resolving retro in a fair and equitable manner is an article of faith.

I would like to talk for a minute about federal relations. This is a very important area that has consumed a great deal of my time over the past year. It is an area of great importance to us, both for financial reasons, as well as because of the wide latitude of federal regulators as they oversee issues ranging from the environment to housing to justice to energy. This is an area where direct engagement is necessary, where we have had great success, and where I believe that we have laid the groundwork for much more progress in the years ahead. We are working diligently across a number of issues with the U.S. Departments of Education and Interior, the Environmental Protection Agency, the U.S. Department of Justice, the U.S. Department of Treasury, the U.S. Department of Energy and the Internal Revenue Service.

I would also like to express my support to those who were elected as delegates to the Fifth Constitutional Convention. I think it proper for me to urge you to keep faith with our ideals in this endeavor. Our constitution should embrace our history and our diversity. The Virgin Islands is a testament to the power of immigration, from the West Indies, from the United States and from Europe.

Our constitution should be a confirmation to the rest of the country and the Caribbean that the United States Virgin Islands is a land of opportunity and a land of rights and liberties for all. It should also reaffirm that Virgin Islanders are, as Governor Ralph Paiewonsky stated, "Men and women of dignity. We are members of all races and have different religious beliefs. We select friends and associates on the basis of human worth and value without regard to race, creed or color. We are voters... We are in every walk of life... We are of all hues and beliefs. We are the majority. We do not apologize to anyone for being Virgin Islanders—we are proud of it—to us it is a title of distinction. We were either born in the Virgin Islands, or came here to live with the same ideals, principles and dedication to preserve this way of life. New people who come here to live among us earn this title only after they have proved they can appreciate, accept and participate in this society of individuals of good will. They are accepted by us, not because they are rich or poor, white or black, Jew or Gentile, Democrat or Republican, but because they are decent human beings. Those who remain outside this happy association are constantly dissatisfied with our Virgin Islands way of life."

Similar to our work with the federal government, our work with other nations demands direct engagement. We have deepened those relations, particularly with those with whom we have important connections, whether for historical or economic reasons.

We have and will broaden and deepen our ties with the British Virgin Islands. We will utilize the vehicle of the Inter-Virgin Islands Council to dialogue on issues pertaining to fishing, transportation, criminal justice, immigration, insurance, airlift and hurricane preparedness. The underpinnings of this and other relationships are essential elements necessary for long-term growth, development and fair treatment. By economic necessity, we are a sub-region of the

Caribbean and share waters, economic profiles and a long history and future that is tied together. We need to begin to view our linkages as a strength that will cause us to approach economic opportunities and tourism product offerings in a much more unified manner.

And, in this context, we acknowledge and embrace the richness of our past and what it means to us as we re-define relationships and set the foundation for the future. At the end of 2007, we celebrated the ninety-fifth anniversary of the West Indian Company, now fifteen years under local ownership. And in nine years, we will celebrate one hundred years since the transfer of the Virgin Islands from Denmark to the United States. We have initiated contacts in preparation for a visit to Denmark, and will have direct government-to-government talks in May. As across the world, the history of colonial relationships is important, and they should be a source of support and strength to us. We cannot rewrite our history, but we can learn from it—good and bad—and appreciate those who helped us on our collective march to progress and freedom and prosperity.

In a similar vein, though for quite different reasons, we have had direct contacts with the Government of Sweden. In that case, our issue of common concern is the disposition of V&S and its ownership of Cruzan Rum. We have reached out as well to the prospective purchasers of V&S, and have expressed to them—as well as to the Swedish government—our deep concern over the future of Cruzan Rum. In the last several years, Cruzan Rum has had several off-shore owners, including a U.S. corporate owner, a family-controlled entity in Trinidad with global alcohol and manufacturing interests, to now a governmental entity that is in the process of privatizing certain of its business enterprises. Through these changes, Cruzan has done well and our rum excise receipts have grown, however, there is a risk to us in this lack of stability. The revenue stream from the excise taxes generated by the sale of Cruzan Rum support approximately \$500 million in bonds and provides a source of funding for many critical capital projects. We are tracking this situation closely, and have prepared a number of contingency plans for various outcomes. But at this time, I caution all in our community that this is too important an issue for any loose political rhetoric at all.

Let me reiterate. The State of our Territory is one of determination and hope. It is up to us to show that determination. And it is up to us to redeem that hope.

As the elected Legislators of the Territory—each of you, Virgin Islanders of good will, each with a sworn duty to our community and our citizenry—you have expressed your own priorities, and acted in ways and legislated in ways that have occasionally been at odds—at times sharply at odds—with my priorities and my view of the direction that we should take. And that is the way it is in a Democracy. And when you have passed measures that I have vetoed, and sent back, that is also the way of a Democracy. This is a process established by law that binds and directs and controls us all. We each have duties and responsibilities set by law.

I believe that with the challenges we face, this is no longer the time for the politics of confrontation, or to let political differences get in the way of the public's business. The challenges we face are too great, and the consequences of failure are too significant. We must seek to replace heat with light, and melee and rumor with truth and facts. We must remember to listen and reflect, and to talk rather than shout. We must work together.

I would now like to take this opportunity to thank two people to whom Gregory Francis and I are truly indebted and in awe. To my wife, Cecile and to Greg's wife Cheryl, I say thank you for all that you have done and for the foundation that you have set to do more. In the past year, Cecile convinced Eunice Shriver to open Camp Shriver's on St. Thomas and St. Croix, to provide our special needs children with summer activity, she started two chapters of Children and Adults with Attention Deficit / Hyper-Activity Disorder, continues her work with Habitat for Humanity, and each and everyday makes sure that Government House on St. Croix, Catharineberg on St. Thomas and the Battery on St. John are seen and used as the treasures they are for the benefit of our community.

Cheryl, because of her commitment to young people and concern for the future, started the Stop the Bleeding Foundation to reach-out and touch our young people to encourage them to turn away from violence and embrace their potential. In this endeavor, she has reached out and brought in our religious leaders to take part. To both of you—again, thank you.

As we begin this New Year, let me state this firmly, in this moment when the eyes of the people are on us. It is time for us to find a more effective way to work together and do better for our people and our community.

Going forward, every action we take as the leaders of this government, whether in the executive branch or the legislature, must be about our collective job of building a future of prosperity and opportunity for all the peoples of our Territory.

Going forward, as employees whose salaries are paid by the people of the Territory, every action that we take in our work for the public should address a simple question: Are we helping the people on whose behalf we serve?

This is our work, our every day work, and this is our responsibility. As Abraham Lincoln famously said: "The best thing about the future is that it happens one day at a time."

At the end of the day, the State of the Territory is not about the trees, it is about the forest. Government is not about the numbers, it is about what we accomplish. It is not about the bills we pass; it is about the future we create...A future that we can only create together.

Thank you and God bless the Virgin Islands.