The Virgin Islands Consortium

Opinion: A New Beginning

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Ashley Scotland January 08, 2015

New beginnings often times produce excitement and great anticipation, as well as nerve-wracking uncertainty.

The USVI's new Governor, Kenneth Mapp, is entering office at a unique time in our territory. We seem to be at a tipping point in our recovery as a community, both economically and socially. As he enters office, he will be inheriting a myriad of very different issues—some good and some ugly. From the HOVENSA LLC lawsuit and failed Operating Agreement, to the hotel development projects on St. Croix, St. Thomas and Water Island, how Governor Mapp and the individuals he appoints handle these issues moving forward will greatly shape the U.S. Virgin Islands for the next 50 years.

The Ugly

We are still in the midst of a local recession, especially in the St. Croix district. The energy crisis continues to be an issue and, as a result, businesses continue to close. Currently, the residential electricity rate in the U.S. Virgin Islands is at $0.39 per kilowatt-hour. To put that into perspective, Puerto Rico's average electricity rate is around $0.25 per kilowatt-hour. Yet, even with a rate that is more than $0.10 less than the V.I.'s average electricity rate, Puerto Rico, along with economists from major banks, have stated that this is one of the main reasons its economy has remained stagnant, and has been contracting. That island is now trying to move to the U.S. national average of $0.12 per kilowatt-hour in order to build a more sustainable economy. We are $0.14 higher than Puerto Rico and $0.27 higher than the U.S. national average.

Crime—although there has been a decrease in homicides compared to the peak in 2010—seems to have gotten more brazen and daring. In recent months, we have had a high number of daytime armed robberies of banks and jewelry stores. The Virgin Islands Police Department continues to be understaffed, overworked, underappreciated and have been given a mandate without all the necessary tools to do the job effectively. Recent stories of officer dissent over nepotism, rank and promotion seem to paint a picture of low morale within the department. The rank and file officers also continue to be some of the lowest paid officers in the United States.

Multiple government agencies, such as the Department of Corrections, are under federal consent decrees, and all have to be addressed. The Government Employees Retirement System (GERS) is on the verge of collapsing in the next 15 years if much-needed reforms are not passed. During his tenure, Governor John P. de Jongh, Jr. commissioned a GERS task force that made numerous recommendations to correct the agency's ills. However, the majority of those recommendations have not been enacted. What is clear is that the longer it takes for the Legislature to take action on this, the more painful the cuts will have to be in order to make the fund solvent again.

Among other concerns are the need for implementation and funding of a corrective action plan for the Juan F. Luis Hospital. Not to mention, the steady student dropout rate in the territory as more and more local young people continue to struggle in our education system. There has also been recent news of the parent companies of HOVENSA LLC--HOVIC and its subsidiaries--filing a lawsuit in the New York Southern District Court with claims that the U.S. Virgin Islands Government owes them more than $200 million in tax dollar refunds.

The Good

In 2015, according to the V.I. Water and Power Authority, electricity rate payers can expect to see a 30 percent reduction in the fuel cost section of their electric bill (LEAC) when its propane project is rolled out. Currently, according to information found on the utility's website, as of January 1, 2015 our electricity rate is $0.39 per kilowatt-hour for residential consumers and $0.42 per kilowatt-hour for commercial consumers. The fuel portion of the electricity rate is approximately $0.28. A 30 percent reduction in that cost would bring the fuel portion to approximately $0.20. This would mean the overall electricity rate is expected to be around $0.31 per kilowatt-hour for residential consumers and approximately $0.34 per kilowatt-hour for commercial consumers when the propane project comes fully online. Although these rates are still not at an appropriate level to spur economic growth in the territories, it still will be a welcomed relief to residents and business owners who have been fighting to survive under the current rates. Those savings could be put back into the economy in various ways. We should also expect to see some short term fuel cost relief separate from the propane project, as the price of crude oil has continued to fall and is projected to remain low for at least the short-term as the market balances itself out. This should all be welcomed news for Governor Mapp, as these factors could serve as a mini stimulus to the economy.

Another positive development is the Paul E. Joseph stadium demolition and reconstruction effort. The project has already begun and is on schedule. The $20 million project is expected to take 30 months to complete. Based on an amendment attached to a financing vehicle for the stadium, "unemployed qualified residents" of the Virgin Islands must be given first preference in hiring. The stadium will have a 3,500-seat capacity and is expected to host about 80 events a year. The immediate impact on the economy will be from the construction jobs available at the onset of the project. In the long run, the stadium and the permanent festival village, which will also be constructed as part of the project, can be used as a tourist tool, as it will have the capacity to attract large sporting events. It can also be a building block for the continued revitalization of the Frederiksted community.

Three hotel developments are also on schedule to be developed in Gov. Mapp's first term. The St. Croix Golden Resort and Casino project is expected to start in the first quarter of the 2015 calendar year. The project is expected to immediately bring more than 1,200 construction jobs—200 more jobs than the original number promised by the new Governor during his campaign. After the completion of the project, which is expected to take about 25-26 months after the initial start, we can expect around 2,000 jobs to be added to the economy directly and indirectly.


Port of Mandahl

In the district of St. Thomas, there are also two projects expected to begin. One of those projects, Mandahl Resort Holdings, has been a controversial one and it remains to be seen if the community, and the various agencies, will allow it to move forward. If it is pushed forward, it will bring over 300 construction jobs over three years and 700 permanent jobs. The second project is the Margaritaville Vacation Club (MVC) resort. It is expected to be open sometime early this year, as the construction continues on the project. The hotel is expected to bring about 125 full-time jobs.

On Water Island, The Water Island Development Company has proposed a project that will build a boutique resort on the island, and construct residential dwellings and villas in conjunction with a community center and commissary.

From the start to the completion of the various hotel projects, we can expect the addition of over 4,000 permanent and temporary jobs to the U.S. Virgin Islands economy.

On a different note, since the sale of HOVENSA to Atlantic Basin Refining (ABR) was unsuccessful, we have not heard much on the future possibility of a sale for the refinery. However, based on testimony given on the record, under oath on the U.S. Virgin Islands Legislature floor, we know that at least two other companies are interested in purchasing the refinery and operating it as such.

There are still questions regarding whether HOVENSA will now continue with the sales process or if it will shut down completely, inevitably setting up a long legal battle between the VI Government and the company. If HOVENSA does decide to continue with the sales process and the refinery is sold and reopened, this will serve as another economic boon for the people of the U.S. Virgin Islands, and more significantly, the people of St. Croix. This will also put the Governor in a situation to negotiate a contract that will affect the people of the territory for the next 40 years, and have great economic impact on the people of the U.S. Virgin Islands moving forward.

Monarch Energy Partners side-by-side with the HOVENSA refinery

Some other great things happening in the territory include the development of solar farms on both St. Croix and St. Thomas. Additionally, St. Thomas continues to build and protect its tourism product by dredging and increasing their docking capabilities, along with adding new tourism attractions, such as the dolphin aquarium at Coral World.

In the spirit of new beginnings, the new Governor did a masterful job of assembling a team of rivals for his transition team. So far, he seems to be a unifier. This is exactly what the territory needs at this moment. In his first public remarks after his election, Mapp spoke of reform, accountability, transparency and inclusiveness. He demonstrated some of that inclusiveness with some of the members he selected for his transition team, which included two former rival gubernatorial candidates from this past general election cycle. He also addressed some of the transparency issues when it comes to finding employment with the new administration. In keeping with his purported dedication to transparency, resumes are not to be accepted by transition team chairs or members. They have a process set up where resumes can be dropped off to transition offices or via the internet. Jobs will be given out based on ability and credentials, and not based on who job applicants supported in the previous campaign.

His early cabinet selections have seemed to demonstrate his commitment to fairness and transparency, as he has selected highly qualified residents with excellent credentials to fill various commissioner roles. His early actions have also demonstrated some of the things that reveal his ability to be a unifier in our community in a time when that is what is needed.

It is clear that the new Governor and his team, along with the newly elected Legislature, will face some tough challenges--from the projected budgetary shortfall, to the growing GERS deficit. They will definitely need to exercise patience, as most of the issues facing the territory did not occur overnight, and cannot be fixed overnight.

Due to budgetary limitations, for problems to be properly addressed, sacrifices will have to be made. We do not know what sacrifices will be made, but they are indeed expected. In the same vein, the new administration is entering during a time where economic development in the territory seems to be starting its upward trajectory.

 Governor Kenneth Mapp

How Governor Mapp and his administration manage the resources we have will make all the difference in creating an environment conducive for the continued growth of the private sector. Many of the issues currently facing our territory have simple, logical solutions that just require new insight or perspective. In the words of Henry Ford, "Coming together is a beginning, staying together is progress and working together is success." Our new Governor is entering with a mandate from the people, and how he leverages his influence during his initial grace period to get things done and accomplished will be crucial to our territory's recovery and success.