

VIRGIN ISLANDS PORT AUTHORITY

Gateways to the USVI Economy

Fiscal Year 2017 Budget Report



Submitted to:

The 31st Legislature of the United States Virgin Islands
Committee on Finance

Submitted by:

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Virgin Islands Port Authority

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Earle B. Ottley Legislative Hall
St. Thomas, US Virgin Islands

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Virgin Islands Port Authority
BOARD OF GOVERNORS

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Private Citizen, St. Croix
Term: April 24, 2014 - April 24, 2017

Laurel Hewitt-Sewer
Vice Chair
Private Citizen, St. John
Term: Sept. 23, 2015 - Sept. 23, 2018

José A. Penn
Secretary
Chairman, Economic
Development Authority Board
Term: Ex-officio

Gustav James
Public Works Commissioner
Term: Ex-officio

Beverly Nicholson-Doty
Tourism Commissioner
Term: Ex-officio

Claude E. Walker, Esq.
Attorney General
Term: Ex-officio

(VACANT)
Private Citizen, St. Thomas

(VACANT)
Private Citizen, St. Thomas

(VACANT)
Private Citizen, St. Croix

Virgin Islands Port Authority
EXECUTIVE STAFF

Carlton Dowe
Executive Director

David W. Mapp
Assistant Executive Director

Donna Frett-Gregory
Chief Financial Officer

Dale Gregory
Director of Engineering

Denise M. Mills, CPM
Director of Property Management

Dayna Clendinen
Director of Human Resources

Nycole Thompson, Esq.
Legal Counsel

Denise George-Counts, Esq.
Senior Staff Attorney

Tonya Pickering
Internal Auditor

Kelvin Industrious
Marine Manager STT/STJ

John Payne
Marine Manager STX

Ava Penn
Crown Bay District Manager

Jose Nazario
Airport Manager – STT

Felicia V. Blake
Maintenance Manager STT/STJ

Hughley Daly
Maintenance Manager STX

Edred Wilkes
Police Chief STT/STJ

Louis Flynn
Police Chief STX

Mauricia Anna Penn
Accounting Manager

Monifa Marrero Brathwaite
Public Information Officer

Julice Harley
Chief of Staff

Damali Rogers
Special Assistant

Good afternoon Honorable Senator Clifford Graham, Chairman of the Committee on Finance of the 31st Legislature of the U.S. Virgin Islands; other distinguished members of the Committee; all honorable senators in attendance; the Legislative staff; and to the listening and viewing audience. I am Carlton Dowe, the Executive Director of the Virgin Islands Port Authority. Allow me to introduce the members of my senior management team accompanying me today:

- Assistant Executive Director Mr. David Mapp;
- Director of Engineering Mr. Dale Gregory;
- Senior Engineer on St. Croix Mr. Damian Cartwright;
- Chief Financial Officer Ms. Donna Frett-Gregory;
- Legal Counsel Attorney Nycole Thompson;
- Senior Staff Attorney Denise George-Counts
- Labor Relations Administrator, Ms. Valcina Quashie;
- and our St. Croix Property Management Officer, Mrs. Avia Elcock-Theophane.

Today I will present an outline of the Virgin Islands Port Authority's Fiscal Year 2017 Operating and Capital Budget. To explain the methodology used to develop the Authority's budget, please allow me to provide a synopsis of our mandate and funding sources, our most recent accomplishments, and our plans and opportunities for the future. Please keep in mind that our budget has not yet been reviewed or approved by our Board of Governors, and is in its very beginning draft stages. Therefore, some sections of this presentation are subject to change.

Mandate of the Virgin Islands Port Authority

The Virgin Islands Port Authority is a semi-autonomous agency created by the VI Legislature to deliver safe and modern transportation facilities to connect the US Virgin Islands to the world. VIPA assists the government by fostering and sustaining sound economic growth through tourism initiatives and port development. Our agency is governed by a nine-member board. We manage the two airports and 14 public seaports throughout the territory.

VIPA was created to be a self-sustaining agency, which does not receive funding from the central government. Our fiscal year begins October 1st and ends September 30th. We derive the majority of our revenues from air and cruise ship visitors to the Virgin Islands. The Authority's financial health is largely dependent upon the success and future of the USVI's tourism industry and the US economy. Our primary sources of revenue include:

- **Fees and rents** collected from airlines, cruise and cargo ships, tenants and other users of our facilities, as per our aviation and marine tariffs.
- **Federal Grants**, primarily the Airport Improvement Program (AIP) and

Entitlement Grants received from the Federal Aviation Administration (FAA) that can only be used for FAA-approved airport projects.

- **The Passenger Facility Charges (PFCs) program** which allows the collection of fees for every enplaned passenger. Federal law limits use of PFC revenues to FAA-approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition.

VIPA is a significant sector of the US Virgin Islands' economy. The airports and seaports are the gateways to the territory and operate 24 hours a day, all year. The ports play a vital role in the movement of business on a daily basis in the USVI as we facilitate travel and commerce.

Accomplishments - Fiscal Year 2016

In fiscal year 2016, the VIPA Governing Board, my staff and I continued to transform the Port Authority's way of conducting business and complete critical repairs at our facilities. We were able to successfully tackle a myriad of issues facing the Port - both internal and external to the organization. Our focus is driven by the Port Authority's position as the "Gateways to the USVI Economy."

Based on the most current information from the USVI Bureau of Economic Research, the territory had **2.7 million visitors** in calendar year 2015. This consisted of approximately 800,000 air and 1.9 million cruise arrivals. The following is a listing of significant achievements we accomplished during FY 2016:

Aviation Division

- In FY 2017, VIPA plans to increase its aviation rates. VIPA officials have had extensive and successful meetings with our airline partners. Public meetings have been scheduled for July 7th on St. Thomas and July 8th on St. Croix to discuss the pending increases with members of the community and the local aviation and tourism industry.

Cyril E. King Airport, St. Thomas

- In FY16, we replaced a 20-year old elevator that provides users of the facility with access to the second floor of the terminal.
- A new public address system is currently being installed and should be completed by August.
- In the next 90 days, we will begin an overhaul of the departure lounge restrooms at CEKA.
- The Port Authority's maintenance building on St. Thomas is over 50 years old and severely dilapidated. It also sits on prime property on the airport apron – an area that we plan to expand to create more spaces for private jet parking. Within the next few months, we will begin the construction of a new maintenance building on empty land in the Bournefield area. Finally, our maintenance employees will have a decent building to work from.
- In conjunction with the construction of the new maintenance building, we are

also working with a developer to construct a new hangar for private jets to augment our private jet services provided at the King Airport. This is a significant source of aviation revenue, and will help to keep us competitive in the industry.

- My staff and I met with Bournefield Housing residents earlier this year to inform them about the progress of the plans to relocate them to a portion of Parcel 68 in Lindbergh Bay. The Port Authority has partnered with the VI Housing Authority to construct residential units to relocate any qualifying remaining residents of the housing community.
- We have received demolition permits to take down five derelict units in Bournefield, and continue the process of clearing the area to use for aviation purposes. This project is currently out to bid.
- Our Board recently approved the purchase of a \$4.7 million back-up power generator for the Cyril E. King Airport. We already have a generator to power the lighting system. This new generator will carry the entire terminal and runway lights in the event of a power failure. We issued the Notice of Award this week and expect to have this new generator installed in 10 months.

Henry E. Rohlsen Airport, St. Croix

- In January 2016, we broke ground to construct a new fire station for the Henry E. Rohlsen Airport on St. Croix. The new 12,000 square-foot station will feature modern firefighting equipment and accommodations for our fire crew. The total cost to construct the station is \$7.1 million. VIPA received a \$6.8 million grant from the FAA to assist with the construction costs. The new station should be completed August 2017. It must be noted that VIPA had been prohibited from receiving discretionary funds since 2002 due to issues relating to the closure of the Anguilla Landfill. It is only within the last three years that the FAA has begun issuing discretionary funds to the VI Port Authority.
- Phase Two of the Rohlsen Airport's apron rehabilitation project is about 70% completed, with full completion expected by mid-August 2016.

Marine Division

- VIPA and the West Indian Company, Ltd. partnered to develop a unified marine tariff, which established one set of rates for the St. Thomas/St. John district.
- One June 22, 2016, the VIPA Board authorized the Virgin Islands Port Authority, through the Executive Director, to enter into an Amended and Restated Piers Usage Agreement with Royal Caribbean Cruises, Ltd.
- In December 2015, VIPA signed a 10-year agreement with Royal Caribbean (RCCL), the world's second largest cruise line. This agreement solidifies the business relationship between the two parties and helped to secure the cruise industry in the territory for the next decade. It included a provision for RCCL to have guaranteed berthing along the southern portion of the Monsanto Marine Facility in Crown Bay, and requires RCCL to guarantee a certain amount of passengers. It also included an increase in port fees – as per the new unified marine tariff. RCCL, which is currently the line that brings the most passengers

to St. Croix, has also agreed to pay a reduced fee to berth in Frederiksted. Berthing in St. Croix had been available at no charge since 2002. Cruise ships will now pay \$5 in fees on St. Croix.

Seaports – St. John

- The paving of the cargo apron at the Moorehead Marine Facility at Enighed Pond, St. John has been completed. The project costs \$1.2 million.
- The paid parking lot in Cruz Bay is still in the design phases. Our engineers have been working with the designer to ensure that we at least have a completed design by the close of fiscal year 2016.

Seaports -St. Thomas

- The Gregorie East Channel dredging in Crown Bay is now significantly completed, allowing the world's largest ships to berth at our pier.
- VIPA and WICO have partnered to commission a feasibility study to examine the possibility of constructing a new cruise ship pier in Crown Bay. The contractor Moffat and Nichols began gathering information in May and should be completed by the end of August.
- The Port Authority has selected a contractor to build a two-level garage to reduce parking congestion at the Urman Frederick Marine Terminal in Red Hook. The design includes 88 new parking spaces (in addition to the existing 100 spaces), along with improvements to the draining and utilities. Construction should begin by August 2016 and will take a year to complete. The project cost is projected at \$5.5 million.
- We are currently advertising for a company to build a new pilot boat to use in the St. Thomas/St. John harbors.
- We are currently replacing old fendering and cleats that were causing damages to vessels berthing at our Blyden facility. We are also resurfacing a portion of the bulkhead. This project should be completed by August. I would like to remind the listening public that the Port Authority promised to improve its ferry and cargo facilities when we raised our ship dues and wharfage fees on April 23, 2014. This fendering and apron repair project, as well as those completed in St. John and at the cargo ports on St. Thomas last year are evidence that we are fulfilling our promises to provide safer facilities for our users.

Seaports – St. Croix

- A brand new, \$500,000 pilot boat – the Larry Finch II – was launched in the St. Croix harbors this week. We now have two working pilot boats. Within the next 10 days, however, we will be removing one of the boats and placing it on dry dock for routine maintenance.
- We have completed laying the foundation for high mast lighting at the Containerport to improve safety conditions at this port at night. We plan to complete the installation of the lights in FY 2017.

Administration & Finance

- VIPA received a BBB+ Marine Bond rating from Standard and Poor's in April, a rating we have maintained for the last three years.
- In FY16, we collected new revenues: **Off-airport taxi and limousine operating fees** are charged \$10 per day at CEKA and \$5 per day at HERA. Ten prime parking lot spaces have been reserved for these vehicles. There is also a \$20 fee for operators who need to access the General Aviation ramp under VIPA escort; **Off-airport car rentals** are charged a \$1 fee per contract day to pick up passengers at CEKA and HERA, effective November 1, 2015; and a **new cruise ship fee structure** based on the unified tariff will improve VIPA's cruise ship revenue stream. The unified tariff goes into effect October 1, 2016.
- We have implemented more stringent policies for returned checks, doubtful account write-offs, use of our corporate credit cards and travel and business expense reporting procedures.
- A new budget module system was employed to track and manage expenses more efficiently.
- To reduce paperwork and errors, we have entered into a contract with Sage Time and Human Resources Management Solutions to install a computerized payroll and time management system for the Authority. This system should be in place by September.

Property Management

- We are preparing to demolish five derelict units in Bournefield and prepare the property to be used for aviation purposes in the future.
- Our property management staff is currently working on inputting information into a new tenant management system that is linked to our existing financial system. This will help to better manage our extensive property portfolio.

Human Resources

The Authority is also one of the territory's largest employers. We employ **354** residents and indirectly employ thousands of people via our tenants who provide services at our facilities and via the contractors and subcontractors that we hire for professional services and maintenance and construction projects. One of our most valuable resources are our employees. VIPA currently employs 228 employees on St. Thomas, 119 employees on St. Croix and seven employees on St. John. In 2016 we hired a new police officer on St. Croix and an officer to serve the St. Thomas/St. John District. While we have had a female fire crew chief on St. Croix for several years, we hired our first female fire fighter on St. Thomas this year.

Energy Efficiency

In FY16, we spent a significant amount of time seeking ways to reduce energy consumption and utility costs at our facilities. We are preparing to launch a major energy retrofit at both the King and Rohlsen Airports. We are also preparing to install a photovoltaic system at the Rohlsen Airport, similar to the one we have on St. Thomas.

Community Outreach & Donations

At the Port Authority, we realize that giving back to the community helps to make our territory a better place to live. We do our part to help by providing volunteer services and funding to individuals and organizations to support worthy causes. In FY16, VIPA contributed over \$78,000 in charitable donations. We have given to a variety of local organizations and community groups such as the local carnival and festival celebrations, little league and basketball camps, school music departments and many more.

It is important that our community understands the role of the Port Authority, our accomplishments and the challenges that the Port Authority faces as it carries out its mandate. We have continued to be pro-active by sharing information with the public via daily radio advertisements, appearances on local radio and television shows and at community meetings. We have also hosted focused tenant-group meetings where my staff and I provide information and make ourselves available for one-on-one question and answer sessions. Our attendance at tradeshows helped us to interface and have open dialogue with officials in the aviation and marine industry. We continue to partner with VI Tourism Department, the West Indian Company, Ltd. and the central government to meet with industry leaders to discuss new service or increased visits to the USVI.

The Port Authority has a strong online presence. We maintain our official Web site, (www.viport.com), as well as a Facebook, Twitter and our new Pinterest social media accounts to keep the public informed. Due to funding issues, we were unable to implement certain changes to our Web site as we planned last year. However, in FY17 we will re-vamp our Web site to ensure that the site meets ADA requirements for government Web sites and ensure that the site can be viewed properly on mobile devices.

Challenges

Entity Wide Ratios

When the financial results for the aviation and marine divisions are compared by location, the ratio of equitable revenues to operating expenses between St. Thomas and St. Croix are directly correlated to VIPA's entity-wide gain:

Division	St. Thomas	St. Croix
Aviation	1.33	.57
Marine	2.17	.63

Status of Pending Permits

The approval process for permits continues to be a great challenge for the Port Authority. While we are able to move our projects through the local approval

boards within a reasonable amount of time, the permits tend to stall for months or sometimes even years at the US Army Corps of Engineers in Puerto Rico. We currently have several permits pending their review and approval:

St. Thomas/St. John

Project	Date Submitted to USACE
Red Hook US Customs Facility & Construct New Dock	April 2016

St. Croix

Project	Date Submitted to USACE
Ann E. Abramson Marine Facility Tender Pier Repairs (Frederiksted)	September 2015. Additional information requested submitted Dec, 2015 and June 24, 2016.
Schooner Bay Channel Dredging (Christiansted)	December 2015. Additional information requested on April 11, 2016 will be submitted by VIPA by July 15, 2016.
Ovesen Seaplane Facility Shoreline Restoration	July 2014. Additional information requested submitted in Dec. 2015.
Gallows Bay Shoreline Restoration	Submitted in early 2014, but misplaced by USACE in 2015. Package was resubmitted by VIPA in Jan. 2016.

We also have other projects in the works to be submitted to the Army Corp:

1. The restoration of the Gallows Bay Marine Passenger Terminal should be submitted to the USACE within the next 30 days.
2. The installation of the 100-ton bollard at the Containerport may require an USACE permit if it falls close to the shoreline or within the water.
3. A joint submittal will be made to the VI Coastal Zone Management Committee and USACE for the Krause Lagoon/Cross Channel Maintenance Dredging project.

Looking Forward: Fiscal Year 2017

Before I begin my projections for the upcoming fiscal year, I would like to re-emphasize that these numbers and projections have not yet been approved by our board. Our budget is in draft form and is subject to change.

Bond Financed Projects

Our 2014 Marine bond issuance was financed at an interest rate of 3.84% for the first year – a record for the territory. Our primary focus financially this fiscal year will be meeting our bond requirements. The Authority is committed to making its \$4.6 million payment – which is inclusive of principal and interest. According to the terms of the bond, all the projects financed with bond funds must be underway

by FY 2017. We have provided a report to all the senators that includes the status of all our bond financed projects. The capital projects funded from the bond proceeds include the following:

St. Croix Projects Funded VI Bond Financing

- Structural repairs, pavement resurfacing and cross channel dredging at the Wilfred Allick Port and Transshipment Center.
- Refurbishment of the south tender landing at the pier of the Ann E. Abramson Marine Facility in Frederiksted.
- Gallows Bay Marine Terminal refurbishment, bulkhead and dredging of the Schooner Bay Channel to facilitate the berthing of small cruise ships in Christiansted.
- Apron resurfacing and shoreline restoration at the Ovesen Seaplane Facility.

St. John Projects Funded VI Bond Financing

- Develop a paid parking facility in Cruz Bay.
- Paving the cargo area at the Theovald Moorehead Dock and Terminal.

St. Thomas Projects Funded VI Bond Financing

- Dredging the Crown Bay East Gregorie Channel to accommodate the largest cruise lines.
- Construction of a US Customs and Border Protection Facility and a multi-level parking garage at the Urman Victor Fredericks Marine Terminal in Red Hook.

Aviation and Cruise Travel Forecasts

The territory's air and cruise passengers is usually relatively stable. That is, from one year to the next air and cruise schedules rarely change significantly. As noted above, various economic and political factors influence traffic volume, but such differences usually evolve slowly. With continuation of a strong economic base in the United States, air and cruise traffic is expected to be similar to previous years. The last five years of total arriving USVI air and cruise passengers, as well as an estimate for 2016 and forecast for 2017 is shown below.

Air and Cruise Passengers

	Actual					Estimated	Projected
	2011	2012	2013	2014	2015	2016	2017
Cruise	2,008,991	1,904,468	1,998,579	2,083,890	1,878,847	1,771,558	1,645,583
Air	842,180	925,222	883,691	910,525	948,573	960,000	975,000

Source: Historic: U.S.V.I. Bureau of Economic Research, 2016; Port Authority, 2016; Estimate and Forecast: Seslia, Inc. and Arthur Airport Consulting, 2

This forecast assumes air and cruise ship schedules continue in a similar manner as they are currently. Based on data from the first six months of the Port Authority's 2016 fiscal year, the number of total cruise passengers to the USVI is

expected to be down from the previous year, while air passengers are up slightly. For 2017, air passenger numbers are expected to increase very modestly based upon a continued strong U.S. economy, while cruise passengers will decrease based upon the recently issued current ships' schedule.

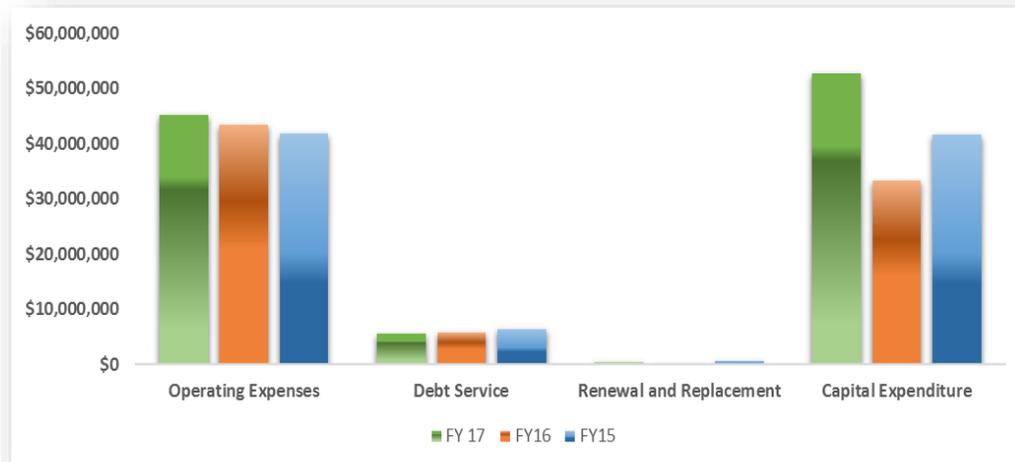
Fiscal Year 2017 Budget Overview

The FY 17 recommended budget has not been reviewed or approved by the Governing Board of the Virgin Islands Port Authority. As such, numbers presented are preliminary and subject to change based on the Board's final approval. The FY 2017 operating budget anticipates approximately 3.83% increase over the FY 2016 budget.

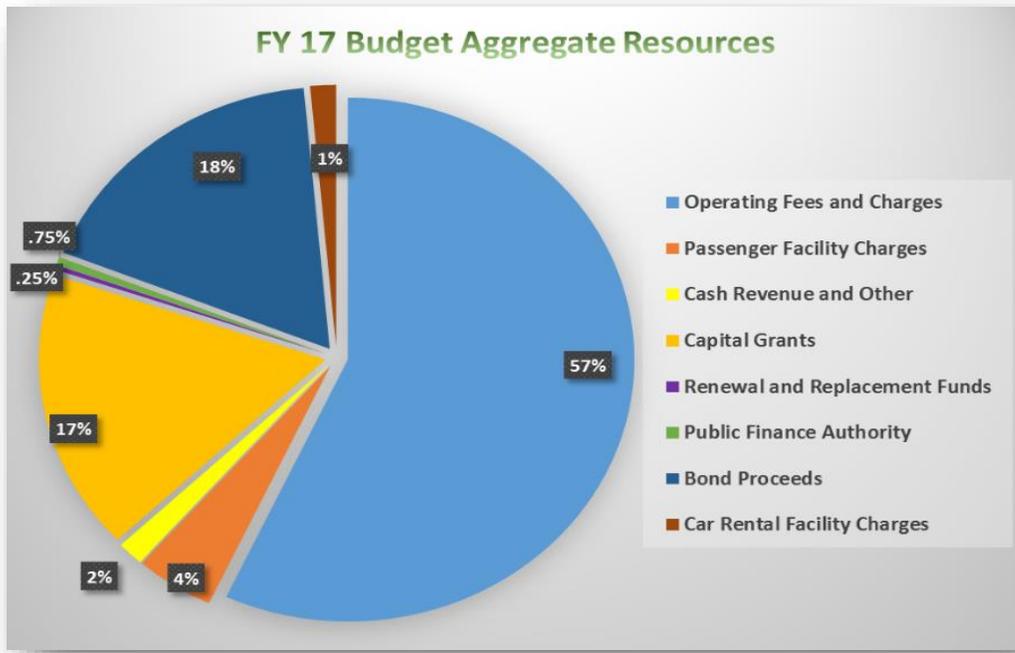
Flux Analysis of Projected Expenses

For the Fiscal Years Ended September 30, 2016 & 2017

	Budget FY 2017	Budget FY 2016	% Change
Operating Expenses			
Payroll Expenses	\$ 26,158,328	\$ 25,069,978	4.3%
Maintenance Expenses	2,808,984	2,544,613	10.4%
Materials & Supplies	1,679,142	1,238,093	35.6%
Utilities	5,617,059	6,134,801	-8.4%
Professional & Other Services	5,224,643	4,262,032	22.6%
Travel & Other Expenses	510,486	425,345	20.0%
Insurance	2,528,855	2,955,849	-14.4%
Other Expenses	639,000	869,894	-26.5%
Total Operating Expenses	\$ 45,166,497	\$ 43,500,605	3.83%



Operating expenses are at \$45.2 million, excluding depreciation of \$17.5 million, debt services of \$5.5 million and projected capital expenditures of \$51 million for a total projected outlay of approximately **\$101.7 million**. Projected outlays are funded by revenue projections of \$57.6 million derived from operating fees and charges, \$4.6 million from passenger facility charges, \$2.7 million from cash revenue and other, \$17.9 million from capital grants, \$300K from renewal and replacement funds, \$500K from Public Finance Authority and \$18.1 million from bond proceeds.



New Revenues – Fiscal Year 2017

In FY17, we plan to collect new revenues from the following:

- **Paid Parking on St. John:** We plan to upgrade the parking lot at Enighed Pond to a paid parking facility to generate revenues to assist with marine facility repairs.
- **Aviation/Airfield Fee Increases:** Increased aviation rates should bring additional revenues to the Authority's aviation division, a significant amount of which will be used to repay the marine division for a past loan and to establish an emergency operation fund for the aviation division.

Personnel

VIPA does not plan to conduct any significant hiring in FY 2017. We will only fill personnel vacancies deemed necessary to efficiently operate the agency or those required by a federal mandate. Personnel costs for FY 2017 total \$26.1 million to fund salaries and benefits - including new and vacant positions. We do have

two officers currently training in the police academy that are slated for our police department on St. Croix. In the St. Thomas/St. John district, we plan to replace two officers who resigned and hire additional officers to help reduce overtime costs and provide adequate patrol of our ports. If we are able to hire new officers, we hope to have at least two residing on St. John so that we may have a constant police presence at our facilities there.

In the upcoming months, we will begin union negotiations with our Law Enforcement and Airport Firefighters union, and the United Industrial Workers of the Seafarers Union that represents our aviation employees. We are working to make sure that all contracts are renegotiated on a timely basis.

Summary

Finally, I wish to thank all the senators and the Mapp/Potter administration for their continued support. I would also like to acknowledge my appreciation of the support and leadership of the Port Authority's Board of Governors, as well as my staff whose experience, hard work and commitment have proven invaluable as we work together to accomplish the mandate of the Virgin Islands Port Authority.

This completes my presentation. I have included a copy of my verbal testimony and a draft of the Authority's Fiscal Year 2017 Budget in the packages distributed to each senator. My staff and I are available to answer any questions that you may have.