

TESTIMONY  
BY EXECUTIVE DIRECTOR DAVID ZUMWALT

TO THE FINANCE COMMITTEE OF THE LEGISLATURE  
TO PROVIDE AN OPERATING APPROPRIATION FOR FY2007 FOR  
THE UNIVERSITY OF THE VIRGIN ISLANDS RESEARCH AND TECHNOLOGY PARK  
JULY 24, 2006

GREETINGS & SUMMARY OF REQUEST

Good morning, Honorable Senator Louis Hill, Chairman of the Finance Committee, members of the Committee (Senator Norman John Baptiste, Senator Roosevelt David, Senator Pedro Encarnacion, Senator Neville James, Senator Usie Richards, Senator Juan Figueroa-Serville), and other members of the 26<sup>th</sup> Legislature.

Mr. Chairman, my name is David Zumwalt and I am the Executive Director of the University of the Virgin Islands Research and Technology Park, or RTPark for short. I have served in this capacity since November 1<sup>st</sup> of last year, and appreciate the opportunity to appear before this Committee in support of, and to respond to your questions pertaining to, our request for an appropriation of \$1.5 million in operating funds for fiscal year (FY) 2007 for the continued early stage development of the RTPark.

Accompanying me this morning are *Malcolm Kirwan*, who served as Executive Director prior to November 1<sup>st</sup> of last year and continues to advise the RTPark, and *Dr. LaVerne Ragster*, who serves on our Board of Directors and also as President of UVI. Also in attendance are RTPark employees *Denise Kurg*, who serves as my deputy and Special Assistant, and *Ingrid Santangelo*, who serves as Executive Assistant.

Although the RTPark is affiliated with the University of the Virgin Islands, it is a distinct corporation chartered by Act 6502 of the Legislature, later amended by Act 6726, and governed by a Board of Directors separate from that of UVI. Thus, this appropriation request is separate and apart from the appropriation request of the University.

The RTPark's Board of Directors is comprised of seven directors, three of which are appointed directly by the Governor, and four are selected from among the members of the UVI Board of Trustees.

### BIOGRAPHICAL HIGHLIGHTS & CONTEXT

Before getting into the heart of my presentation, please permit me to take this opportunity to briefly introduce myself.

I have been particularly focused in telecommunications, software applications, and information technology businesses, both during the course of my undergraduate studies in electrical engineering at Rice University in Houston, and from the beginning of my professional career.

In the mid-1980s, I joined with two other partners to start a software applications company serving the wireless telecommunications industry. Our company grew to serve customers domestically and in forty countries internationally. Since merging the company in the mid-90s, I have been active in emerging market venture capital.

One of the most important lessons I have learned from my experiences is that companies can grow to reach global markets if they are properly aligned to market needs, offer compelling and competitive services, and are continually committed to improving the value they bring to the marketplace. These factors for success are not constrained to any specific location; they are as integral to businesses in the Virgin Islands as they are to businesses anywhere. While success can never be guaranteed, one must have a clear and strong vision, the perseverance to see it through, and the pragmatic agility to respond to changing realities in the marketplace.

For a big idea to succeed, it must sustain support from the stakeholders it serves. The RTPark is a big idea, and the support it has inspired and enjoyed from the Government, the University, and the business community is both a key critical factor for its ultimate success and the reason I was attracted to come and serve as its Executive Director.

### RTPARK MISSION & OBJECTIVES

The RTPark is envisioned as a world-class, near-shore provider of technology solutions for knowledge-based, information technology and e-commerce companies. Our mission is to serve

as a significant social and economic development vehicle for the US Virgin Islands, to become the catalyst for the technology sector, to broaden UVI's academic and financial capabilities, and to promote territorial prosperity and growth. Part and parcel to this mission is a key workforce development component: to help produce a highly skilled workforce capable of demanding competitive wages. This endeavor will require a united effort from the business community, higher education and the public sector to formulate and execute strategies that best meet the territory's workforce and employer goals.

Stated more succinctly, our mission is to "move the needle" on the VI economy by fostering a vibrant and sustainable technology sector, in turn creating opportunities and lasting benefits for the people of the Virgin Islands.

What tools are we bringing, and what assets can we leverage, to achieve success?

1. First, as the southeasternmost point of the United States, our territory is ideally situated as a hub site for undersea fiber networks. AT&T and Global Crossing operate major facilities here, and in fact, St. Croix plays host to one of the largest concentrations of bandwidth in this hemisphere. These existing fiber assets are a "natural resource" we can tap for growth, and qualify the Virgin Islands as a prospective site for any globally-connected business. Since these hubs were originally designed to switch through, not connect to, the Virgin Islands, we have a role to play in making these hubs accessible.
2. Second, as a territory of the United States, we enjoy the protection of US law for intellectual property, investment, and contracts. Businesses looking to locate here do so under the jurisdiction of the same legal system they are afforded stateside. This can be a key consideration when weighing the pros and cons of "offshoring" to a foreign land.
3. Third, the RTPark has the ability to offer significant tax incentives to our tenants, and incentives are critical to our ability to compete for tenants. That the US Department of the Treasury has been working to clarify federal law pertaining to sourcing of income and

residency is widely known; and in fact, Treasury tightened residency requirements to 183 days per year as of last January. Clearly, there are threats to the tax benefit structure; at the very least, prospective tenants seek clearer answers from Treasury in order to have the confidence to move. But there is also good news: we believe residency may not be as significant an issue for many of our prospective tenants because they are not organized as so-called “flow-through” entities. As for sourcing of income, we are working with the VI Government and the US Treasury to secure affirmation of *existing* Treasury guidance favorable to the types of companies we are seeking to attract. In short, the RTPark is actively involved in the ongoing dialog with Treasury, and we believe there is reason for optimism even though the future cannot be guaranteed.

4. Finally, we are leveraging the support of our most critical asset: the common aspirations and vision of our Government, University, and territory to build a more diversified economy. The RTPark is an ideal vehicle to promote the development of local technology businesses and a natural fit for the territory’s size and its fragile environment.

How are we partnering, and will we partner, to build success?

- A. First, through strategic partnerships which bring the reputation, technical expertise, and widely-recognized capabilities that make it possible for us to deliver business solutions and associated services to tenants. These partnerships allow knowledge-based companies to have confidence that their objectives will be achieved by partnering with us. Our strategic partners will include: the Government; telecommunications, hosting and “netsourcing” partners; banking and transaction processing partners; and others offering integrated technology and e-commerce solutions.
- B. Second, in collaboration with UVI we expect to facilitate a more highly-trained workforce through established academic programs, internships, certificate programs, and a school-to-work initiative linked to local high schools. Additionally, we will work with

UVI faculty to provide opportunities with tenants for research and consultancies that draw upon faculty expertise.

- C. Third, we will work to build a community reinvestment initiative to engage our tenants' and partners' available business resources to address local problems and issues, such as: the use of technology to improve teaching and learning in the school system; facilitating where possible the development of e-Government; and a number of other targeted challenges. Beneficiaries of RTPark tax incentives will be expected to make tangible contributions to community development as evidence of their commitment to the territory and corporate social responsibility.

These forms of collaboration make it clear that we are not just focused on the creation of new business; we are fundamentally concerned with the broader aspects of social and economic development in the territory, ensuring that larger economic benefits accrue to the community for the purpose of elevating the overall standard of living for the people that live here. The RTPark is designed to deliver on this broad range of benefits as it becomes operational.

#### RTPARK STATUS & ACHIEVEMENTS

Where is the RTPark in its overall development, what have we achieved, and what new tangible progress can we expect? We can report to you that the RTPark has made significant progress. Let me bring you up to date on where we are, the challenges we are working to overcome and the plan of action we will undertake in FY2007 to continue to move ahead:

1. We have established our headquarters in temporary offices on the UVI St. Croix campus, using two adjoining residence hall units which are being equipped with the technology necessary to conduct prototyping tests of the RTPark's e-commerce solution.
2. We have entered into a ground lease with UVI for 10 acres of land on the St. Croix campus. A Master Plan for the site was completed as part of our Phase 1 development and approved by our Board of Directors. A conceptual plan has been rendered for our

initial building, a “Technology Center” multi-use complex of approximately 20,000 sq. ft. which will house RTPark administration, suites for tenants, conference rooms, and support services. The Legislature recently authorized \$7 million in construction funding through the Virgin Islands Public Finance Authority for this facility. I would like to take this opportunity to specifically thank the 26<sup>th</sup> Legislature for their support, and to Senator Usie Richards for introducing the recent legislation that allows us to begin to build a more visible presence in the community.

3. In 2005, Act 6726 amended Act 6502 to clarify various aspects of the original RTPark legislation. Based on this clarification, the RTPark received, for the benefit of prospective tenants, a favorable tax opinion (from Ballard, Spahr, Andrews & Ingersoll, LLP) regarding our legal status and the eligibility of tenants to receive tax incentives under legislation establishing the RTPark.
4. A business plan has been developed encompassing an analysis of the market in which the RTPark will operate, and identifying the services we will offer in response to specific market opportunities. Additionally, a marketing kit for potential tenants has been developed, and we have formulated our first round of tenant screening and admission procedures.
5. We are in discussion with a number of potential strategic partners. A preliminary Strategic Alliance Agreement has been reached with Crucian Global Services, Inc., or CGSI, establishing a cornerstone for the delivery of hosting and managed services to tenants. We are working to secure access to fiber switching facilities under the terms of a favorable collocation agreement. Other discussions have been established, or staged pending US Treasury guidance on income sourcing, with a variety of targeted prospective tenants.
6. In addition to the operating funds the RTPark is seeking in this appropriations request, we are actively pursuing other avenues for funding, including federal grants and loans.

These additional sources of capital will provide or augment funding for development and expansion of our enterprise network infrastructure, as well as our community and commercial outreach initiatives. The key objective is to set the stage for private sector participation – and investment – in the RTPark.

#### FY2007: START-UP & EARLY STAGE DEVELOPMENT

As you can see, the RTPark is well positioned as we head into a new fiscal year. Our efforts are focused on realizing the start-up and early stage development objectives of the RTPark, and include the following activities:

- A. *U.S. Treasury Sourcing of Income Issue:* We expect to overcome the legal and legislative barriers imposed by the American Jobs Creation Act of 2004. It is our understanding that Treasury is currently drafting income sourcing guidance, soon to be released, which should provide a clearer understanding of the specific procedures to be used, including how a business' "effectively-connected" relationships might affect income sourcing.
  
- B. *Strategic Partners & Public Relations:* We will be working to put in place a full complement of strategic partnerships, and launch a coordinated public relations plan to facilitate our marketing efforts and keep stakeholders informed as to our progress.
  
- C. *Tenant Relations & Management:* Areas continuing to be addressed include:
  - i. Finalizing the organizational and administrative framework for the operations of the RTPark.
  - ii. Completion of all legal documents pertaining to tenant licensing and compliance, lease and operating agreements among the RTPark and its tenants, and applicant procedures and forms for screening, processing, due diligence reviews and acceptance – including the engagement of independent third-party providers such as audit and accounting firms.
  - iii. Creating a web-enabled system for client application processing and management, integrated with our web site.

- iv. Identifying a core group of “early adopter” prospective tenants, and signing on an anchor tenant.
- D. *Facilities*: The quality of our facilities and telecommunications infrastructure are key ingredients to our success. We will work to finalize the release of funds from the Public Finance Authority and commence construction on the Technology Center. Given the lead time involved in bringing it online, we will be developing contingencies to deal with any demand for space exceeding what is available in our interim facility. Additionally, we plan to conclude a collocation agreement with a fiber switching facility.
- E. *Capital Development & Business Plan*: We will continue to pursue opportunities for additional funding from the Federal government and strategic partners. In addition, our business plan will be updated as appropriate to reflect changing realities of the marketplace, targeting a break-even position for the RTPark within three to five years of the start-up of operations.
- F. *Prototyping*: In addition to developing and demonstrating the “proof of concept” e-commerce solution mentioned earlier, we will work to create and launch successful business model prototypes to help stimulate our territory’s technology community.
- G. *Collaboration with Government & UVI*: We intend to establish linkages with government agencies to facilitate compliance with government rules and regulations, and create a framework for providing, at some time in the future, on-site support for a technology-driven single-source solution for our tenants. Additionally, we plan to develop Memoranda of Understanding with UVI establishing mechanisms for collaboration in areas such as: joint research, grant proposals and conferences; intellectual property; education and training; and the like.
- H. *Workforce Development & Community Reinvestment*: We will also work to foster a workforce development plan that can link demand from our tenants for particular skills

to: education and training by UVI and other educational partners; students and other members of the workforce; and VI talent on the mainland – giving them the opportunity to bring their skills back home.

There remains much to be done to bring the RTPark to fruition. FY2007 will see many tangible signs of progress, building on the investment of time, energy and resources which began some five or so years ago. To put our progress to date in proper perspective, it generally takes an average of five-to-ten years to develop and launch a University Research Park. Judged by this standard, I would say we are well on our way.

With your continued support, we expect to make significant strides in the coming year to help realize our collective vision, namely: a Research and Technology Park that is focused on making our territory a globally-connected center of technology and e-commerce; to create jobs for our people; to build new revenue streams for the Government and UVI; and to foster a diversified economy with a higher standard of living for our residents.

Mr. Chairman, on behalf of the directors, management and staff of the RTPark, we thank you and the members of this Committee for the opportunity to present today, for your past and ongoing support, and – looking forward – for your favorable consideration of our \$1.5 million appropriations request for FY2007. We stand ready to respond to any additional questions you might have.

David M. Zumwalt  
Executive Director  
UVI Research and Technology Park