

TESTIMONY  
BY EXECUTIVE DIRECTOR DAVID ZUMWALT

TO THE FINANCE COMMITTEE OF THE LEGISLATURE  
TO PROVIDE A PROGRESS REPORT ON THE OPERATIONS OF  
THE UNIVERSITY OF THE VIRGIN ISLANDS RESEARCH AND TECHNOLOGY PARK  
AUGUST 3, 2007

GREETINGS & INTRODUCTORY STATEMENT

Good day, Honorable Senator Terrence Nelson, Chairman of the Finance Committee, members of the Committee (Senator Liston Davis, Vice Chair, Senator Carlton Dowe, Senator Juan Figueroa-Serville, Senator Neville James, Senator Ronald Russell, Senator James Weber), and other members of the 27<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 2005.

Accompanying me today are *Denise Kurg*, who serves as my deputy and Director of Facilities and Operations, and [*Dr. LaVerne Ragster*, who serves on our Board of Directors and also as President of the University of the Virgin Islands. Also in attendance is] *Malcolm Kirwan*, who served as Executive Director prior to my appointment and continues to serve the RTPark in an advisory and support capacity. The RTPark currently has four permanent employees.

The RTPark is an autonomous instrumentality of the Virgin Islands Government affiliated with, but separate from, UVI. We are governed by a seven-member Board of Directors, three of whom are appointed by the Governor, and four are selected from among the members of the UVI Board of Trustees.

On behalf of our staff and Board of Directors, I appreciate the opportunity to appear before this Committee to provide a progress report on the operations and development of the RTPark, and to respond to any questions you might have. Based on our current plans and revenue expectations, we are not presently requesting an operating appropriation for FY2008.

SPECIAL REMARKS REGARDING THE PUBLICATION OF “NO TECH, NO PARK” IN  
THE VIRGIN ISLANDS DAILY NEWS, AUGUST 2, 2007

Let me begin by speaking to the coverage the RTPark received in yesterday’s Virgin Islands Daily News. We will certainly grant that members of our community may have concerns about the viability of the RTPark concept, or about the timeline required to see tangible results. I believe this is the core premise of the article. On balance, however, the article’s assumptions, “facts,” and conclusions are flawed. I am here today to affirm the validity of the RTPark concept, to attest to the soundness of the assumptions supporting it, and to tell you that the RTPark is real, significant progress has been made, and tangible results are now before us and accelerating.

A quick glance at yesterday’s headlines provides welcome opportunities for clarification:

- *In fact*, although we have been *allocated* almost \$13 million by the Virgin Islands government, we have not *spent* \$13 million. \$7 million of that amount, for example, is a capital development grant managed by the Public Finance Authority that only became available to us earlier this year.
- *In fact*, by securing data center space inside the Global Crossing facility for our tenants and partners, we shaved two years off the time it would otherwise require to generate revenues and attract e-commerce and technology companies. We accomplished what prospective tenants and partners told us was most important, and what no one else in the territory had been able to accomplish before. I believe this is a demonstration of agility and stewardship, not of miscalculation.
- *In fact*, we currently have a high-speed connection in our current offices and are running a pilot data center there. Supplemental connectivity between the campus and the fiber facility remains important, but by first securing our data center inside Global Crossing, our success is no longer dependent on having supplemental connectivity in place today.
- *In fact*, some of the other technology parks held up as examples in the article required much more time, and much more funding, to accomplish what we have already achieved.

- *In fact*, we are taking care of the basics given the realities here at home. We are immediately leveraging the territory's available assets, demonstrating leadership in identifying and overcoming obstacles, and targeting tenants and partners who can help us grow the other assets – especially talent – that we need.
- *In fact*, we have a *paying* tenant, a television station now employing UVI students, and more are on the way.
- *In fact*, we have been good stewards of the resources entrusted to us. We have provided financial statements to this body and our accounts are audited by Ernst & Young every year. We do exercise necessary discretion in sensitive matters involving contracts and individual privacy, as must every other company and agency, but we are subject to ongoing professional scrutiny and we have good governance in place.

The article calls into question the assumptions on which the RTPark is being developed. Fortunately, those that we have been talking to and negotiating with about investment in the territory believe otherwise. Our tax benefits program, our status as a US territory, and the availability of broadband connectivity make the Virgin Islands a very attractive proposition.

Senators, stakeholders, friends and colleagues, in addition to all the hurdles we have had to overcome to help bring the RTPark to reality, time and unrealistic expectations remain two of our greatest enemies. Five years is not a long time in the development of a technology park. The article failed to acknowledge that many technology parks require ten or more years, and \$25 million and more, to go from the drawing board to operation. We have set our sights on a much more aggressive timetable, and I believe we can and will achieve it.

Our territory does not have an established reputation as a center for global e-commerce. The assets for becoming one, though, are clearly in place. It is important to remember that the fundamental goal of the RTPark is not to be just a jobs program; instead, our goal is to foster a new and sustainable sector in our economy that provides high paying professional career opportunities for our residents, arrests the brain drain problem which plagues the Caribbean basin, and “moves the needle” on our economy. This is precisely the kind of development which

can build economic opportunity and prosperity that can succeed in the face of global competition, and that is why the US Virgin Islands needs this now.

It remains for us to prove, of course, that the tangible benefits are real, here, and accelerating. We accept that responsibility, and we look forward to the day when some aspect of our *collective* initiative – whether reflected in a government agency, a university program, personal initiative, or from any other source – merits ten pages of *positive* coverage in our local media. We have always welcomed constructive criticism and debate; such is the nature of things when much is expected or at stake. We appreciate the opportunity to speak to the concerns raised in yesterday’s article, and will continue to look for positive opportunities to do so.

#### RTPARK MISSION, OBJECTIVES AND STRATEGY

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, become the catalyst for the technology sector, broaden UVI’s academic and financial capabilities, promote territorial prosperity and growth, and play a leading role in workforce development to help produce a highly skilled workforce capable of demanding competitive wages.

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. To accomplish this, the RTPark was chartered with a unique mandate, and an expectation that our engagement with stakeholders, partners, suppliers and tenants would be deep, richly integrated, and collaborative. This is reflected in our growing traction in the technology community, the leadership we have already exhibited in resolving issues which have historically impeded economic development in this sector, and the Governor’s stated desire for the RTPark to lead in the development of a sustainable and vibrant technology economy in the US Virgin Islands.

What is our strategy for accomplishing our mission while maintaining alignment of interests among stakeholders? To explore this question, let us first look at some of the key assets we must have in place to create and sustain viable offerings to the technology community.

1. *General Environment for Technology Companies.* We must have an appropriate environment that will attract and appeal to technology companies. The US Virgin Islands is competing in a global marketplace for technology companies. Fortunately, by virtue of our geographic location and status under the American flag, our territory has already been established as a global crossroads for data. AT&T and Global Crossing have installed and operate massive sub-sea optical fiber networks which are interconnected in special switching facilities here on St. Croix and on St. Thomas. In fact, St. Croix now plays host to one of the largest concentrations of bandwidth in this hemisphere. These fiber assets qualify the US Virgin Islands as a prospective site for any globally-connected business, and are an obvious “natural resource” we can tap for growth. It is up to us, however, to develop a suitable local platform for these fiber hubs, because they were originally built here as a result of the merits of our geographic *location*, not with specific local opportunities in mind. The fact that they are here is just part of the story; the Charlotte Amalie harbor has been here for a long time, too, but it had to be properly developed in order to become the world-class port so crucial to our tourism and shipping industries today.
2. *Support Systems for Technology Companies.* The RTPark must have available a distinct and compelling set of offerings that include smart facilities, telecommunications infrastructure, and services that support the technology and e-commerce objectives of potential clients, tenants and partners. The development and availability of these facility and technology service offerings are key to creating the foundation for sustainable operations of the RTPark. The terminology which laces the technology industry can seem “jargony” and unfamiliar, so bear with me, but we must be able to deliver and maintain Tier-1 connectivity, data center collocation space in secure, hurricane-resistant bunkers, and 5-9’s reliability for mission-critical network and application services,

among many other requirements. Translated into plain English, the RTPark must be able to provide connections to the global data network that are as big and wide and fast as can be found anywhere, as well as facilities suited to the unique security, power, and transactional demands of intense computer and network operations, and we must demonstrate that our services and facilities stay up and online, without fail, virtually all of the time. Clearly, special skills and resources are required to operate facilities allowing no more than five minutes per year of unplanned outages, which is what 5-9's reliability means. We cannot simply hang out a shingle saying "open for business," or expect prospective tenants and partners to beat a path to our door because we offer a specific menu of benefits. Instead, technology prospects need to know that the technology support services available in the US Virgin Islands are real, relevant, and valuable to their businesses, and that they will find a knowledgeable and supportive partner in the RTPark.

3. *Strategic Partners who Support Our Mission.* Our enabling legislation specifically envisions public-private partnerships for the mutual benefit of the RTPark, the companies we seek to attract, and the US Virgin Islands. Clearly, we can and must identify and overcome obstacles, take initiative in creating the environment conducive to technology businesses, play a key role in addressing core infrastructure and services needs, and lower barriers to entry. Strategic partners who are already well positioned in the marketplace will be key to both the credibility of our offerings, and to timely service availability for the benefit of the operational needs of technology-driven companies. As a result, we have identified and are presently negotiating with candidate strategic partners who provide broadband network management and provisioning services, data center facility management services including high volume web hosting, and financial transaction processing services, among others.

The right environment, support services, and strategic partners must be in place for the RTPark and the US Virgin Islands to be a viable location for technology and e-commerce companies. Developing these assets has been a part of the RTPark's strategy and focus since our beginning, and is encompassed by our enabling legislation and guiding principles. Further, it has been

supported by our management and Board of Directors at every step along the way. Even so, it is not enough to make the RTPark and the US Virgin Islands “viable” for technology companies. We must also make them compelling.

The most critical assets we can deliver for technology-driven business clients, and the ones on which everything else depends, are the assurance of access to tax incentives and assurance of access to broadband services. Everything else is a secondary consideration. This is a point that is worth emphasizing. Providers of hosting services for e-commerce companies or clients who would potentially consider the USVI as a location for outsourcing their technology support requirements need to know that the RTPark has arrangements in place to access the broadband capability on the island, and they need the assurance that the tax incentives offered by the territory are not in doubt.

Ironically, it is these two elements that have posed the greatest challenge to the development of the RTPark. I am delighted to report, however, that we have great news to share: we have accomplished major breakthroughs with respect to these two major obstacles, but the road has not been easy. Here is a brief summary of the relevant history with respect to these two challenges.

Regarding first the broadband facilities located on St. Croix, the RTPark began discussions with Global Crossing in 2004 for very high speed connectivity as well as data center collocation space inside the fiber facility. We undertook these discussions because doing so had always been key to our mandate and mission, and because it was clear that commercial entities had not been, and were not, able to do so on their own. Three Memoranda of Understanding were reached between early 2004 and 2005, but no definitive agreement was executed until December, 2006 – and fully consummated in May, 2007.

We cannot understate the importance of this agreement. It provides the RTPark with data center collocation space which tenants can use to house their servers, and provides access to the Global Crossing network to enable e-commerce, immediately. This agreement allows us to *market*

tangible services and network assets to prospective tenants and partners now, even while our building and other infrastructure facilities are under construction. This long-awaited development accelerates the ability of the RTPark to operate, attract partners and tenants, and generate revenues. We are now working to complete the configuration and support services incidental to our presence in the St. Croix fiber landing.

Relative to the matter of tax benefits, income sourcing is of particular concern to technology and e-commerce businesses. Generally, the location where income is *sourced* determines the location where such income is *taxed*. Federal legislation passed in 2004 cast a pall on the territory's EDC program as a result of residency and income sourcing questions, and placed in doubt the applicability of territorial tax incentives for companies which also had business in the United States. These uncertainties derailed a number of prospective tenant and partner deals pending for the RTPark at the time, and the very real momentum we had developed and the interest we had created to that date came to a grinding halt.

Clearly, the tax incentives associated with economic development in the US Virgin Islands are critically important to the companies we seek to attract. Working in concert with other business and governmental leaders, we solicited a clarification from the US Treasury Department last year regarding income sourcing for e-commerce and technology companies, and provided examples taken from existing IRS code which demonstrated how territorial tax incentives and federal tax law could be applied to such companies. Success has many parents, and there are many leaders who are to be commended for supporting this initiative. Yet at a time when many might have questions about the RTPark's progress or our mission, it is important to underscore that the income sourcing breakthrough reflected as Notice 2006-76 in Internal Revenue Bulletin No. 2006-38, released September 18, 2006 by the US Treasury Department, draws from examples we provided and work we commissioned to move our territory's economic development objectives forward. Specifically, e-commerce and software licensing scenarios set forth in the IRS Bulletin provide positive interim guidance for companies operating in the USVI, clarifying how the Internal Revenue Service intends to treat related income sourcing for tax calculation purposes,

providing such companies considerably more comfort for determining how their income will be treated for the purposes of U.S. tax law.

These two critical challenges have seen breakthrough progress since I last appeared before you in July, 2006. These successes are reflected in our increasing deal flow, our marketing outreach to and ongoing negotiations with prospective tenants and partners, and the formal commencement of our building project on St. Croix. We are moving rapidly to launch and accelerate operations.

#### PLANS FOR THE CONTINUING DEVELOPMENT OF THE RTPARK IN FY 2008

I now would like to brief you on some very specific ongoing activities of the RTPark, with emphasis on what we intend to accomplish in the balance of this fiscal year and in fiscal year 2008. We are typically subject to non-disclosure agreements while definitive contracts are being negotiated, so I trust you will understand why certain prospects or opportunities are only generally defined in my remarks:

1. *Strategic Partnerships.*

- a. *Broadband network management and provisioning services.* We are actively negotiating a strategic partnership with a publicly-traded company which has long demonstrated a sustained commitment to the USVI. As currently envisioned, RTPark would outsource management of certain data center telecommunications facility services in exchange for a significant continuing revenue stream.
- b. *Data center facility management services including high volume web hosting.* We are actively negotiating a strategic partnership with a successful, midsize wholesale provider of web hosting services. As currently envisioned, RTPark would outsource management of certain web hosting facility services in exchange for a significant continuing revenue stream.
- c. *Financial transaction processing services.* We are actively negotiating a strategic partnership with a midsize credit card payment processor with market leadership in “card not present” e-commerce transactions. As currently envisioned, RTPark would

outsource management of certain e-commerce payment processing services in exchange for a significant continuing revenue stream.

2. *Tenant Development Prospects and Marketing Plan.* As a representative cross-section of prospective tenant deal flow, RTPark has met and established ongoing discussions with a major computer operating system publisher and support firm; an e-commerce company specializing in a tourism and hospitality niche; an online provider of insurance products; a web site firm servicing the financial services and brokerage industry; and a secure authentication provider for sports and fine arts collectibles, among others.

To reach prospective tenants and partners, we are relying on a very targeted direct outreach effort with the assistance of various partners. Local service providers, for example, have been instrumental in identifying prospects and brokering introductions. In addition, our outside counsel is serving as a channel partner for RTPark, and making introductions to key client prospects in the e-commerce, growth capital, and technology industries. Global Crossing is actively assisting us in developing prospective deal flow. We have put in place a coordinated public relations plan to facilitate these marketing efforts, and we intend to expand that program to help keep stakeholders informed as to our progress.

It is important to note that for many prospective tenants and partners, especially those to which we are specifically reaching out, the timeline for first considering and ultimately making strategic business decisions can be two years or longer. This is a fundamental commercial reality and it must shape our expectations for progress to some extent. While we can take steps to try to support faster decision cycles, and we certainly do so to the extent we can, it would neither be realistic nor appropriate to expect prospects to literally decide to become a part of the RTPark overnight.

Finally, even though our current office facilities have limited space, we executed an “early adopter” tenant lease in May, 2007 with WVIF TV 15, which operates its

production facilities at the RTPark and is engaging and training UVI students in various station operation tasks.

We have made significant progress towards finalizing: (a) the organizational and administrative framework for the operations of the RTPark, (b) 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, and (c) the creation of a web-enabled system for client application processing and management, integrated with our web site. These efforts will continue in the coming fiscal year.

#### WORKFORCE DEVELOPMENT

We were chartered as an affiliate of UVI to encourage workforce development for the benefit of the residents of the US Virgin Islands. To this end, we have established a working relationship with UVI-CELL to identify and support technology-based continuing education, generally characterized as certificate-level skills training relevant to the needs of the companies we seek to attract. We also work closely with technology faculty, and UVI students are already at work with WVIF TV 15. This summer, we sponsored the annual Science, Technology, Engineering and Mathematics (STEM) summer enrichment program on St. Croix, which provided high school students with interests in technology the opportunity to explore robotics in a two-week intensive, hands-on program. We will continue to build on these efforts 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, as well as VI talent on the mainland – giving them the opportunity to bring their skills back home.

Through our Global Crossing relationship, we are providing material assistance to UVI's effort to bring Internet2 to the US Virgin Islands. Internet2 is a special, high speed collaborative network reserved for academic institutions and research laboratory programs. Internet2 will significantly enhance UVI's ability to collaborate with other universities and will likely be a

crucial factor in attracting and retaining key academic talent in the future, but the benefits don't stop with UVI. Eventually, Internet2 has the potential to reach other public and private academic institutions in the US Virgin Islands, so we believe our support of the Internet2 initiative serves as a critical contribution to broader workforce development priorities throughout the territory.

Workforce development is not solely about training. It's also about fostering an environment supportive of local technology entrepreneurs. The RTPark has a number of roles to play in stimulating our territory's technology community, and we are exploring ways to support the launch of successful business models, led by local talent, as prototype businesses, here in the US Virgin Islands. Models for such programs exist in other university parks, and we are collaborating to explore the application of similar programs here.

#### COLLABORATION WITH EDA

The Governor has asked the RTPark to draft a Memorandum of Understanding to define a supporting collaborative role for the Economic Development Authority for territorial e-commerce and technology business initiatives led by the RTPark. We anticipate that our collaboration with EDA will leverage our unique skills and mandates, address how we market the territory and its benefits and services, and facilitate the granting of tax benefits and underlying procedures for due diligence and compliance, among other things.

#### FINANCIAL SUMMARY

The monies appropriated to the RTPark by the Legislature have been well spent. In response to a request made last year by the Finance Committee to provide an accounting for monies received, we prepared a five-page report that was sent to Senator Hill, then the Finance Committee Chairman, on July 28, 2006. Among other things, we reported that \$4.5 million in appropriations had been received, and provided a year-by-year breakdown of how those funds were used and obligated. During this current fiscal year 2007, we received an additional \$1.425 million in operating funds.

In the interests of full accountability, we are making available financial statements for the four year period from fiscal year 2003 through fiscal year 2006. These financial statements present supplementary details related to the summary information presented in the audited financial reports of the University in which the RTPark is reported as a Discrete Component Unit.

As mentioned earlier, the RTPark is not requesting an operating appropriation from the legislature for FY2008. Based on the availability of the broadband access at the Global Crossing site, the expectation is that the RTPark will be able to accelerate our operations and enter into business arrangements with potential partners and clients to generate funds needed for operating requirements in the coming fiscal year. We anticipate that these arrangements will come to fruition at about the mid-point of the next fiscal year. To keep the RTPark operational until that point, we will rely on about \$750,000 in funds we have obligated for working capital needs to meet our operating requirements.

Our business plan will be updated as appropriate to reflect changing realities of the marketplace, and we are targeting a break-even position for the RTPark within three to five years from startup.

The capital development program for the RTPark is moving forward with the acquisition of our telecommunications infrastructure facilities and the planning and construction of our building on St. Croix. Thanks to the Legislature, capital funds were first earmarked for the RTPark in November, 2005. A number of steps were necessary to make those funds available to the RTPark, and we were able to draw on those funds for the first time earlier this year. These funds are committed to our "Phase 1 Capital Development," which includes the building program on the St. Croix campus, data center operations in the territory's fiber facilities and related connectivity necessary for RTPark to support tenant and partner operations. To date we have expended approximately \$2.6 million of these funds, and the long-awaited building project on the St. Croix campus has begun.

Since I last appeared before you in July, 2006, we solicited responses from the project management community and selected a project management company, ARAMARK, to provide

management oversight for the design and construction of the RTPark headquarters office building and related infrastructure. In July, 2007, we published a Request for Proposal for architectural and engineering services related to this project. Once responses are received and evaluated, which we expect will occur within the next few weeks, we intend to finalize our selection. Given the lead time involved in bringing this facility online, which is currently projected for Spring, 2009, we will be taking full advantage of the arrangements we have in place with Global Crossing to satisfy demand for collocation space, and develop other contingency plans to deal with support office space exceeding what is available in our interim facility.

In addition, the RTPark has been working to supplement local capital funds with federal funding sources, and we are actively engaged in applications under consideration by two such programs. A \$4.7 million broadband loan application is pending before the USDA Rural Utilities Service (RUS), and RUS has given our application “greenfield” status which is a key qualifier for funding consideration. We are presently working to provide supplemental information they have requested, including specifics on alternatives for partially collateralizing the proposed loan. Collateralization requires an asset and the RTPark lands provided under Act 6502 would be best suited to this need. In addition, we have an application for \$1.5 million in grant funding pending before the US Department of Commerce Economic Development Administration, and representatives of that agency recently visited us in the territory, reviewed our plans and praised the project. We believe we stand a good chance of obtaining capital funds from both sources, and we continue to periodically explore other alternatives, including various programs administered by the US Department of the Interior.

#### CONCLUDING STATEMENT

We believe the RTPark is well positioned as we head into fiscal year 2008. We are beginning to realize operating revenues. We are negotiating with key prospective strategic partners. We have growing prospective tenant deal flow. We have identified obstacles and provided leadership to overcome them; we were instrumental in the income sourcing breakthrough so desperately

needed in the US Virgin Islands. We have taken steps to accelerate the availability of services, data center space, and high-speed connectivity e-commerce and technology companies need.

At this time, we are sufficiently confident that the revenues we will realize, when added to our operating balance, will be sufficient to fund our operating budget for FY2008. Our efforts will be entirely focused on realizing this objective for the coming year.

There remains much to be done to bring the RTPark to self-sufficiency. FY2008 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 up 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 new professional career opportunities for our people; to build new revenue streams for our territory and for the benefit of 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 continued support of this important initiative. We stand ready to respond to any additional questions you might have.

David M. Zumwalt  
Executive Director  
UVI Research and Technology Park