

TESTIMONY
BY EXECUTIVE DIRECTOR DAVID ZUMWALT

TO THE FINANCE COMMITTEE OF THE LEGISLATURE
TO PROVIDE AN OPERATING APPROPRIATION FOR FY2009 FOR
THE UNIVERSITY OF THE VIRGIN ISLANDS RESEARCH AND TECHNOLOGY PARK
JULY 30, 2008

GREETINGS & SUMMARY OF REQUEST

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), Senate President Usie Richards and other members and staff of the 27th 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 1st of 2005.

Accompanying me today is[/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]. RTPark currently has four permanent and two part-time employees.

The RTPark is an autonomous instrumentality of the Virgin Islands Government affiliated with, but separate from, UVI. We are governed, as established by law, 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, to request an operating appropriation for FY2009 in the amount of \$1.4 million, and to respond to any questions you might have. Although the recommendation from the Governor was for \$900,000, we are prepared to justify to you why the \$1.4 million we originally requested is a much-needed investment in RTPark at a time when we are on the verge of opening up a new economic sector that will begin to produce revenues for the territory during the coming fiscal

year. As you are aware, we appeared before this Committee in August of last year but did not request an operating appropriation for FY2008, because we had unexpended funds available from our previous appropriation in FY2007, and we anticipated the commencement of some limited and specific start-up revenue streams.

CONTEXT FOR REQUEST AND SUMMARY OF RECENT PROGRESS

In the past, much of our progress was made behind the scenes, leading to concerns in the community that RTPark might be years away from producing tangible results. When we presented our progress report to this Committee last year, we noted that we were then on the verge of several major *visible* breakthroughs, and we are pleased to share with you that this has been realized, and that our progress – and our results – are accelerating and becoming increasingly tangible in the community.

To summarize, since our appearance before this Committee last year, RTPark has:

1. Negotiated and executed Memoranda of Understanding followed by definitive Strategic Alliance Agreements with two critical strategic partners: Baltimore Technology Park, known locally as Adveniat, and Tropical Tower, a company affiliated with Cornelius Prior, Jr. These partners have committed over \$10 million in new capital infrastructure investment for the benefit of the territory.
2. Negotiated Memoranda of Understanding with a third strategic partner as well as a marketing partner, which will lead to definitive agreements for the benefit of RTPark and the territory.
3. Negotiated and executed a Memorandum of Understanding and Agreement with the Virgin Islands Economic Development Authority, which clarifies our respective roles in the territory's economic development initiatives, establishes a leadership position for RTPark with respect to Knowledge Based Businesses seeking territorial tax incentives, and sets the stage for active and productive collaboration between RTPark and EDA.
4. Commissioned and secured a second Tax Opinion Letter affirming that RTPark's legislation and corporate incentive structure are properly aligned to both territorial and

federal tax law; updating and confirming an earlier Tax Opinion Letter that was commissioned prior to the Treasury source income breakthrough.

5. Witnessed the publication of final regulations by the US Treasury Department which make permanent positive income sourcing guidance for e-commerce and software businesses, which were published in temporary form in 2006 and are based on the merits of justifications we commissioned and presented in concert with other commercial and governmental leaders starting in 2005.
6. Selected an architectural/engineering firm and commenced and completed the schematic design phase for our building project on the St. Croix campus.
7. Finalized and published the specific procedures we use to perform due diligence and process applications for tenancy and the extension of territorial corporate tax incentives.
8. Procured and configured necessary equipment, activated very high speed connectivity, and established and opened our collocation data center inside the Global Crossing fiber switching center on St. Croix for use by partners and tenants; the only Tier-1 facility available in the US Virgin Islands.

As a result, the principal ingredients necessary for businesses to conduct e-commerce from St. Croix and elsewhere in the US Virgin Islands are now in place. First, we offer very high-speed, scalable, global broadband connectivity; second, we offer world class web hosting, applications hosting, and managed services capabilities; and third, we are preparing to announce financial transactions processing services for e-commerce payments, making it possible for all aspects of an e-commerce transaction, from connecting to and browsing a web site, to an end-user's commitment to purchase a product, to the delivery of that product in the form of digital content, to the processing of the payment, to fully occur within the US Virgin Islands.

None of this would have been possible without first clarifying federal tax law on income sourcing – finalized only in April of this year – and securing an agreement with Global Crossing, first announced last year, to provide the high capacity broadband connectivity and collocation space at their fiber switching facility in St. Croix. By securing data center space inside the Global Crossing facility for our tenants and partners, we accomplished what prospective tenants

and partners told us was most important, and doing so significantly accelerated our ability to attract e-commerce and technology companies and generate revenues.

It is an understatement to say that the obstacles we have had to overcome to get to this point have been enormous. Many challenges were unexpected and unpredictable, and solutions have often required business agility and willingness to change plans and direction in response to the dynamics of the marketplace, and the fast-changing world in which technology companies must operate. But even so, this moment has been made possible by the support and steadfastness of our stakeholders: the Government of the US Virgin Islands, the University of the Virgin Islands, and commercial interests who see real opportunity for economic development in the technology sector. It is frankly uncommon to see public sector, academic, and commercial interests coming together – and staying together – to accomplish a common goal. But it is a testament to the original visionaries in that they saw the need, understood the value each stakeholder brings, and positioned the Virgin Islands to demonstrate leadership where few have pioneered before.

PUBLIC/PRIVATE PARTNERSHIPS, AND VALUE ADDED BY STRATEGIC PARTNERS

To accomplish our economic development goals, including fostering the development of a technology sector in the USVI economy, RTPark utilizes public/private partnerships where both parties co-invest to improve and accelerate infrastructure and engage in workforce development. Our corporate tax incentives, which are clearly aligned to both territorial and federal law, and our footprint for connectivity and data center collocation inside the Global Crossing facility, are the compelling drivers that attract the interest and participation of the private sector.

By eliminating those barriers to entry, which required over four years' effort on our part, RTPark is now able to offer commercial services, with the assistance of our strategic partners, where none was possible before.

Our first partner, Adveniat, was signed in January, 2008 to be our managed services partner providing collocation/data center services to other tenants and partners. Our second partner, Tropical Tower, was signed in February 2008 to be our telecommunications partner providing

global connectivity provisioning, billing and support to other partners and tenants. These companies bring substantial expertise in their fields, have collectively committed over \$10 million in new capital infrastructure investment, and will also serve as channel agents, meaning they will be instrumental in identifying and attracting additional tenants and partners for RTPark; in some cases, prospects will come from their own existing customer bases. When we talk about the merits of public/private partnerships, this is what we mean.

Co-investment is not the only objective of public/private partnerships. Acceleration of business goals, aggressive performance metrics, expanding market opportunity, and a level playing field are crucial objectives, as well. Our telecommunications partner, for example, has a role to play in managing our global connectivity, but local service providers and providers of connectivity, such as Innovative, Choice, BroadbandVI, and Mr. Hugh Pemberton, may establish cross connections to us under “carrier-neutral” terms that do not vary from provider to provider. When we talk about the merits of public/private partnerships, this is what we mean.

Many people in our community perceive RTPark to be a building containing technical equipment with connections to the Internet. They are not generally aware that one of the key offerings of RTPark will be to provide what is called a single source solution for e-commerce businesses. That means that RTPark must develop and organize all of the infrastructure elements necessary to support e-commerce in the territory in order to create the environment required for this undertaking to be successful, including:

- access to a hardened, robust and specialized broadband telecommunications infrastructure;
- collocation facilities that will withstand the ravages of hurricanes, and not be subject to power interruptions;
- transaction processing and payment gateway capabilities on-island that meet international standards; and
- a network of experienced, reputable private-sector partners providing hosting, managed services, and telecommunications support at standards of reliability and quality required by e-commerce companies.

All of the elements of this e-commerce infrastructure are mandatory to make e-commerce happen in the territory. All of them have had to be developed from square one. To the best of our knowledge, no other venture of this kind has ever been undertaken in the territory by a single entity that not only has had to design but also develop the infrastructure necessary to support the creation of a new economic sector. And that is what we have been doing, all these years.

No such technology infrastructure and technology support network has been needed for service and manufacturing companies that have historically been brought to the territory under the EDC program. This is why the MOU and Agreement between RTPark and EDA holds so much promise for the future. RTPark brings the focus and resources necessary to foster a new economic sector within our narrower economic development mandate, while we both work to improve collaboration for the sake of broad-based, as well as focused, economic development initiatives in the territory.

We acknowledge that we have not done the best job explaining to the public the scale of the undertaking involved in the development of RTPark, the enormity of the challenges that had to be met and overcome, or the context in which expectations for our progress should be set. Our territory, for example, does not have an established reputation as a center for global e-commerce, and we have not done a good enough job explaining what becoming one involves. How do we go about the business of scoring favorably, as a new public sector business venture starting from “zero,” when prospective partners and tenants apply their rigorous market entry tests to prospective business expansion and e-commerce locations?

We knew that launching a new technology-based sector, as a never-been-done-before economic development initiative, in a territory in the Caribbean with assets to exploit and liabilities to overcome, would make it critical to find and engage venture-minded “early adopter” companies willing to actively engage and make significant commitments and investments, provided we met their tests and preconditions for market entry. Being successful would mean we could move beyond having an attractive “proof of concept” business proposition, to an operational phase

moving at the speed of business. First, however, we faced other obstacles that had to be cleared; for example:

- Global Crossing wanted evidence that we had secured bona fide interest from a number of companies in order to sign a deal with us, but those companies predicated their interest on our providing evidence that we had access to Global Crossing.
- Potential telecom partners would not commit until we had the commitment of a hosting partner; but the hosting partner also wanted the assurance that hosting facilities would be provided within the Global Crossing facility and that a telecom partner was aboard.
- Potential tenants not only wanted evidence of a reliable telecom partner, they wanted a separate independent legal opinion on legislative history of tax benefits in the Virgin Islands, the federal statutory basis for such benefits from a reputable national legal firm, and evidence of Treasury's agreement on income sourcing that gave the green light for e-commerce in the territory.

We cleared these and other obstacles, but it took time. We got it done, and are finally "open for business." Our message to the community during that time, though, was short on details. That is why I say we must do a better job of explaining our processes to the public and helping to shape expectations for tangible progress, and you have my commitment that we will do so. In fact, we have now re-launched a much-improved and informative web site, at www.uvirtpark.com, as well as an automated, opt-in mailing list server at www.uvirtpark.com/mailman, allowing anyone with an e-mail address to stay abreast of current happenings and progress at RTPark and participate in forum discussions.

PLANS FOR THE CONTINUING DEVELOPMENT OF RTPARK IN FY 2009

As I speak to you today, the outlook is bright for RTPark. Adveniat, our hosting partner, has incorporated their business in the territory, relocated their operating executive, completed the first phase of the installation of equipment and servers at Global Crossing, and is in the process of installing more. Our global telecommunications backbone is up and carrying traffic, and

serving the needs of Adveniat as well as a substantial part of UVI's connectivity requirement. Our hosting and managed services operation is open for business at Global Crossing.

So where do we go from here and what benefits will accrue to the territory from this undertaking going forward? Here are some of the tangible results we expect to deliver in the coming fiscal year.

- We anticipate revenue streams from operations totaling \$500,000 in FY2009, the first step for making RTPark financially self-sufficient by FY2011, which is our Number One priority.
- Working with our strategic partners, we will update our business plan to establish mutually-agreed goals and metrics for future performance, including employment targets. We will monitor the implementation of the initial portions of the \$10 million capital investment to which our strategic partners have committed.
- We will dramatically increase our investment in marketing, in concert with our strategic partners and marketing associates who serve as our channel partners, and backed by a coordinated public relations plan specifically targeting prospective tenants and the professional services firms that support them. We now have a clear and compelling story to tell, especially compared to years past.
- Based on steadily increasing interest in RTPark, we expect to sign several new data center collocation tenants. Physical tenants requiring office space will remain constrained by the limitations of our current space on UVI's St. Croix campus; however, other office space is generally available elsewhere in our community.
- Work on our building project on UVI's St. Croix campus will continue, with our collocation data center at Global Crossing serving as our revenue generating platform in the near-term to produce income for RTPark and tangible benefits for the territory as soon as possible. We will quantify more specifically the anticipated costs, in today's dollars, for construction, and identify capital sources, including federal funds, to help bridge the gap.

FINANCIAL SUMMARY

RTPark's Board of Directors approved a \$1.9 million operating budget for FY2009. Based on anticipated service revenues of \$500,000, we are seeking an operating appropriation from the Legislature of \$1.4 million for FY2009. The growth in our budget, from \$1.5 million in FY2008, is primarily a result of plans to dramatically expand our marketing efforts, and improve our ability to perform due diligence and process applications. The Governor's budget provides for a \$900,000 appropriation, but we are asking you to consider our original request of \$1.4 million so that we can properly fund our accelerating efforts to secure new tenants and partners, and generate the results we all hope for and expect.

The operating and capital support this Government has provided to RTPark to date is now beginning to generate tangible returns. From the beginning, RTPark was designed as a public/private sector initiative, because even during our early concept development phase it was clear that private sector businesses engaged in e-commerce would not entrust their business operations to a public sector business alone. The investment made by this government has already led to private sector commitments of \$10 million for capital infrastructure, and we anticipate that future investment by other parties who see the economic merits of this venture will eventually surpass the investment of the USVI Government. This is key, because successful private sector businesses, known for making prudent business decisions, do not commit to such a level of investment for ventures that make no sense. In fact, they must have a level of business confidence in what RTPark is seeking to accomplish, and see the promise of positive financial returns. Now, as a result of what we've already achieved, they do.

Federal agencies, including the USDA Rural Utilities Service and the Department of Commerce Economic Development Administration, are working with us on plans to deploy additional grant and loan funds ranging between \$6 and \$8 million, in aggregate, as we continue to progress. These agencies have made site visits, commenced due diligence, and are very encouraged about our mission and our plan for attracting companies capable of diversifying and improving our economy.

Although RTPark has undergone annual audits, since inception, as a UVI “component unit” and been reflected as such on UVI’s financial statements, we retroactively requested the auditor to perform *separate* audits and financial statements for RTPark beginning with FY2005, and this practice will continue going forward. In addition, to further confirm independently that RTPark has been a faithful steward of the public funds entrusted to it, our Board of Directors has requested the Inspector General to conduct an audit of RTPark’s expenditures and professional services performed by outside consultants and legal advisors.

In preparing for our budget hearing today, we developed and submitted a very comprehensive response to the questions we were asked by the Post Auditor. In our report, we provided information on the key milestone activities of RTPark since inception, details on supplier relationships, and our outlook and plans for the coming years. We know you expect us, and entrust us, to discharge our affairs professionally, ethically and competently. We also hope that you would agree that we stand on the verge of something quite beneficial for the people of the territory, that we have been true to our mission, and conclude that this initiative merits your continued financial support.

CONCLUDING STATEMENT

Mr. Chairman, on behalf of the Board of Directors, management and staff of RTPark, we thank you and the members of this Committee for the opportunity to present today, and for your past and ongoing support. We look forward to your favorable approval of our FY2009 request for an appropriation of \$1.4 million, which coupled with \$500,000 in income from services will support RTPark’s projected operating budget of \$1.9 million. We anticipate that RTPark will be fully financially self-sufficient by the end of FY2011 and that any future financial support requested of the Legislature will demonstrate our progress toward that goal. We stand ready to respond to any additional questions you might have.

David M. Zumwalt
Executive Director
UVI Research and Technology Park