

2

APPROACH TO PROSPERITY



Photo source: U.S. Virgin Islands Department of Tourism



VOLUME 2

APPROACH TO PROSPERITY

FRAMEWORK FOR GROWTH

- Vision 2040 21
- Guiding Principles 22
- Recovery with Resiliency 24

DRIVING FORWARD

- Diversifying the Economic Base 28
- Beyond the Inflection Point 29
- Articulating a Vision for Change 30
- Aspirational and Macroeconomic Goals 31

FRAMEWORK FOR GROWTH

Vision 2040

It was the expectation that Vision 2040 would not be just another plan. Instead, it would build on existing recovery efforts and provide a framework for collective actions to dramatically alter the economic course of the U.S. Virgin Islands. To do this required putting in place an economic strategy that would span multiple administrations. The Governor at the time of launch, Albert Bryan, was adamant this could happen if the economic strategy was based on sound principles, anchored with hard facts, and had widespread public support.

With that in mind, Vision 2040 was designed to be an interactive, participatory process to produce a long-term economic strategy and action plan that positions the U.S. Virgin Islands as a vibrant,

Vision 2040 was designed to be an interactive, participatory process to produce a long-term economic strategy and action plan that positions the U.S. Virgin Islands as a vibrant, desirable place to live and visit, and as a prosperous business location that is competitive based on its abilities to develop, retain, and attract talented workers with creativity and imagination.



Wilfred "Bomba" Allick Port and Transshipment Center. *Source: USVI Port Authority*

desirable place to live and visit and as a prosperous business location that is competitive based on its abilities to develop, retain, and attract talented workers with creativity and imagination.

Vision 2040 launched in September 2020 with a 100-day intensive engagement and public input period and a final product delivery date for February 2021. A task force of public and private leaders was formed to provide oversight and guidance throughout the process. Five industry work groups assembled around the subjects of service sector, technology, energy, agriculture, and manufacturing. Vision 2040 also formed focus groups comprised of

real estate and small business owners, and met with the University of the Virgin Islands' Comprehensive Economic Development Plan and Master Tourism Plan teams to engage sitting and incoming legislative officials. Additionally, 60 stakeholder interviews were conducted with civic leaders, community, business, and public representatives.

Guiding Principles

Effective economic developers identify and clarify underlying values that stakeholders embrace as central themes, and then build out an overarching strategy in which stakeholders know their respective roles in making it happen. By way of the processes, stakeholders commit to move in the same direction to address mutual challenges and meet aspirational goals. In short, systemic change requires commitment and adherence to a shared set of values.



Vision 2040 laid out eleven principles to guide development of a 20-year strategy. Several of the principles focused on planning for implementation and actionable changes. It was agreed that Vision 2040 needed to respect and build off successful

ongoing efforts aligning with common objectives of achieving prosperity. Similarly, over time government departments, economic stakeholders, and organizations would need to consider adapting annual operating and strategic plans with Vision 2040's long-term aspirational goals to reinforce efforts and ensure continuity.

Vision 2040 recognized that economic development involves more than job creation. Growth needs to be tied to community development and be fair and inclusive. Thus, the Vision 2040 project was launched with the intent to engage vast segments of the population.

Further, the principles acknowledged the significance of small businesses and the importance of developing a supportive business environment for entrepreneurs to succeed. Some principles addressed the need for responsive frontline public sector workers, who play a critical role in producing a competitive business climate.

With that in mind, the governor established a task force that included commissioners in his cabinet to help guide Vision 2040. Vision 2040 organizers also agreed that fiscal sustainability and efficient use of public resources to create a top location to visit and conduct business were key in developing a long-term economic strategy. The principles also recognized the role of education in producing the skill sets necessary to reduce poverty and succeed in the world of work. Finally, the principles reinforced that Vision 2040 would need to hold public and

private sectors accountable, while improving on the capabilities of the Virgin Islands Economic Development Authority (USVIEDA) and economic stakeholders to deliver tangible results. Appreciably, accountability comes with producing performance measures that can be easily tracked and modified as needed to achieve maximum impact.

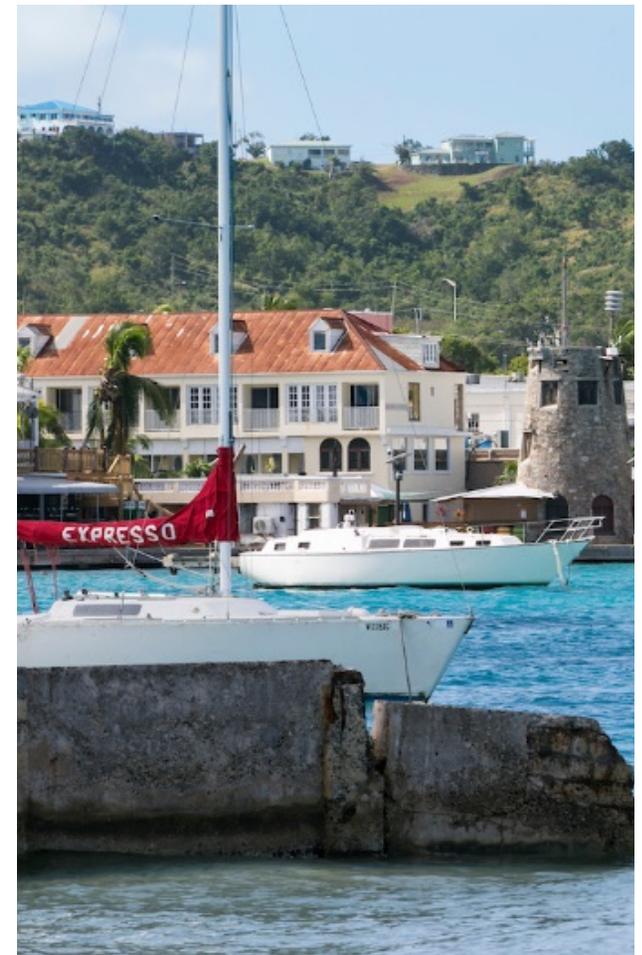


Photo source: U.S. Virgin Islands Department of Tourism

PRINCIPLES TO GUIDE DEVELOPMENT OF VISION 2040

1. Complement the U.S. Virgin Islands' redevelopment initiatives following Hurricanes Irma and Maria to help target resources to improve **infrastructure and community development priorities**;
2. Align with and contribute toward goals of increasing levels of per capita **income, private capital investment, population, and job growth**;
3. Promote an equitable **quality of life and place** for residents, with vibrant communities having affordable, diverse options for housing and accessible amenities;
4. Help create an environment where **entrepreneurs** of diverse backgrounds and incomes can start, grow, and sustain businesses;
5. Improve the **business climate**, characterized on the front line by streamlined processes and business-friendly efforts;
6. Contribute to the **fiscal sustainability** of the Territory by encompassing targeted industries that diversify the economy and produce tax revenue generated from economic growth with decreased need for public spending, particularly on social services;
7. Support efforts of **public education and workforce development** professionals to help prepare and retain graduates as permanent residents in local jobs, while encouraging expats to return to the Islands;
8. Build on the promise of healthy and enriched living, and promote USVI as a **top location** to visit and conduct business;
9. Fill gaps in local **economic development programming and target resources** to support the growth and development of the entire U.S. Virgin Islands territory, and leverage local collaboration and island resources to support services and initiatives;
10. Produce **right-sized performance metrics** along with management control and accountability measures to achieve maximum impact; and
11. Take full advantage of the **capabilities and programs of USVIEDA** and its allies and make recommendations for enhancements as appropriate.

Recovery with Resiliency

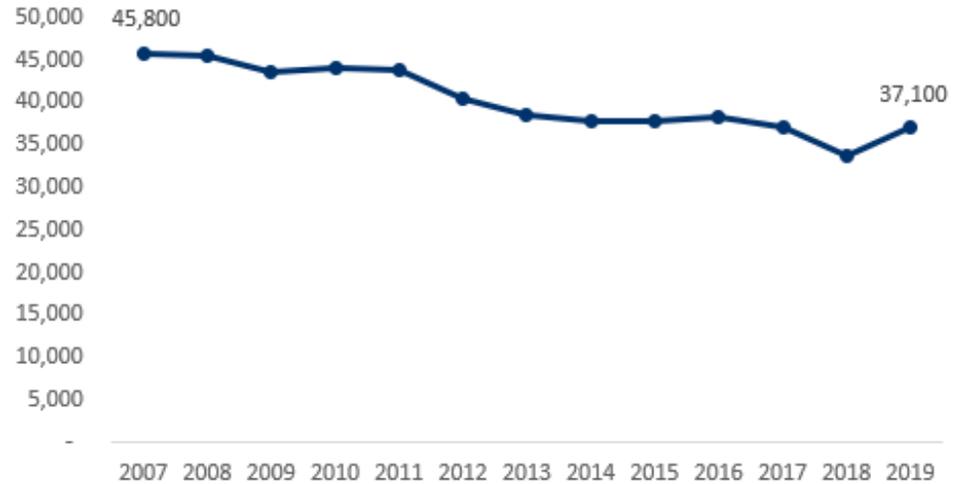
Most residents of the U.S. Virgin Islands are optimistic about the future. This comes from a 2020 survey completed by more than 1,900 residents as part of the Vision 2040 project (see Volume 4). That says a lot about a community that has suffered one setback after another.

Between 2007 and 2019, the U.S. Virgin Islands lost 8,700 jobs, a net job loss of 19%. (Refer to Volume 3 for full economic analyses.)

Clearly, the past decade has not been kind to the economy of the U.S. Virgin Islands. Closure of the Hovensa oil refinery put thousands of residents out of work and financial crisis followed. Hurricanes Irma and Maria then delivered big blows to the power grid and infrastructure assets, causing widespread destruction and hardships for individuals, communities, and businesses. It was estimated that 90 percent of buildings were damaged or destroyed.

Between 2007 and 2019, the U.S. Virgin Islands lost 8,700 jobs, a net job loss of 19%.

VIRGIN ISLANDS TOTAL EMPLOYMENT



VIRGIN ISLANDS PERCENTAGE JOB CHANGE SINCE 2007



The graph to the right, which was included in a report prepared for the UVI Hazard and Resilience Mitigation Team by ESI (Econsult Solutions), shows the dramatic impact of past events.

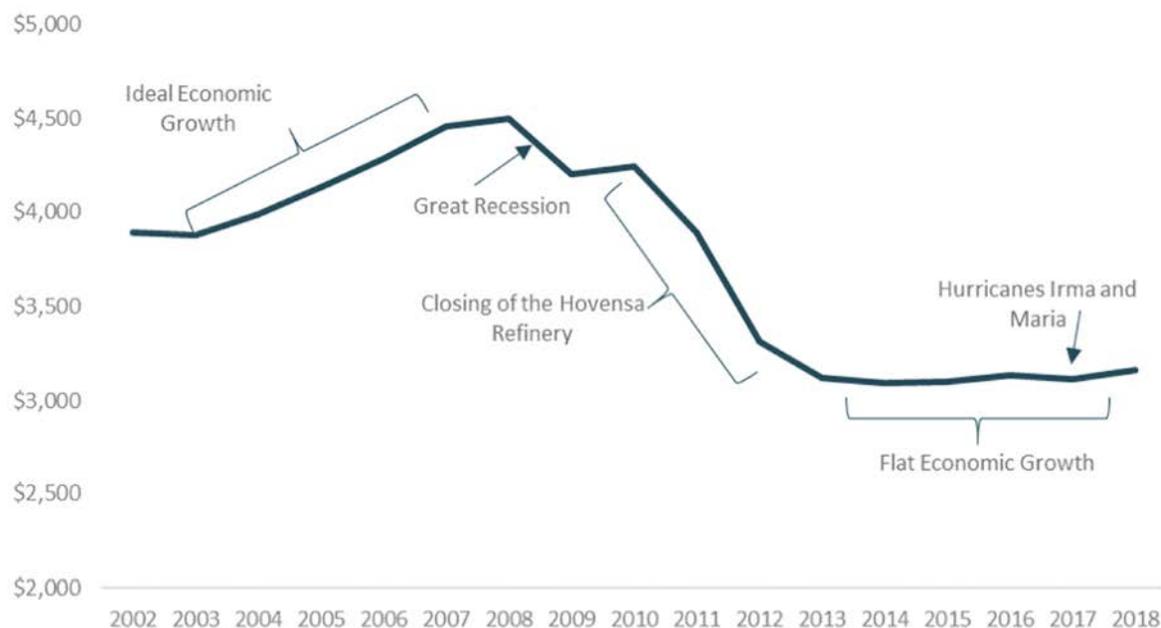
After the natural disasters, government, businesses, social service agencies, and residents came together to rebuild and disaster recovery support from the United States government slowly arrived. Plans for reopening parts of the refinery site kindled hope for many. Then the global Covid-19 pandemic took hold, stifling tourism—the leading industry for the U.S. Virgin Islands—and exacerbating high levels of unemployment.

The scope of Vision 2040 did not include evaluating the impact of these events nor did it provide for recommendations on how to manage recovery activities. Rather, the purpose of Vision 2040 was to provide the long-term vision for a more resilient economy, centered on diversifying the economic base and addressing some of the Territory’s systemic weaknesses.

And yet, gaining a foothold and reversing a decade of economic decline is imperative to the success of Vision 2040. This began well before Vision 2040 with honest assessments of the challenges facing the Territory. With the findings of credible reports in hand, the focus must now be on efficiently and

With the findings of credible reports in hand, the focus must now be on efficiently and successfully implementing the recommendations proposed in those reports.

REAL GROSS TERRITORIAL PRODUCT, IN MILLIONS



Source: Bureau of Economic Analysis (2019)

successfully implementing the recommendations proposed in those reports.

Fortunately, multiple public and private sector efforts are underway that have the potential to better prepare the U.S. Virgin Islands for a more resilient and sustainable future.

Some of the more visible efforts include:

- Rebuilding infrastructure and providing needed support following Hurricanes Irma and Maria;

- Responding to immediate health, safety, and financial impacts of the ongoing worldwide pandemic through collaborative initiatives and global engagement; and
- Beginning to address immediate and dire fiscal conditions exacerbated by these disasters and economic troubles, such as unstable tax revenue and crushing obligations of the Government Employment Retirement System.

HURRICANE RECOVERY

Assessments of the impact and related recovery needs, as well as the progress repairing damages caused by the hurricanes, have been well documented. The long-term impacts of recovery activities on the economy and quality of place remain to be seen.

A report issued by the Homeland Security Operational Analysis Center (“HSOAC”) in 2020 states that estimates to fully recover from the damage caused by hurricanes Irma and Maria exceed \$11 billion: a figure that presents an enormous challenge to a Territory with a roughly \$4 billion annual economy. Fortunately, federal government intervention and support over the past five years and for the immediate future will lessen financial burdens that would otherwise fall entirely on local government, residents, institutions, and businesses.

The HSOAC report, along with reports produced for the USVI Hurricane Recovery and Resilience Task Force, provides comprehensive overviews of these damages and pragmatic ways to approach physical, social, environmental, and health-related challenges facing the Territory today.

The recommendations and proposed initiatives detailed in these reports lay out the best approach for moving forward: they must be wholeheartedly embraced and remain front and center in policy formulation and program development.

COVID-19 PANDEMIC

The global community has yet to effectively manage the Covid-19 pandemic and deal with its ramifications.

In a 2020 report released by the United Nations Economic Commission for Latin America and the Caribbean (“ECLAC”), *Assessing the Effects of COVID-19 to Plan the Recovery*, the authors write, “Prior to the pandemic, the [Caribbean/Latin America] region had reported nearly seven years of low growth, averaging less than 0.5 percent. The impacts of Covid-19 include a reduction in international trade, falling commodity prices, lower demand for tourism services and a drop in remittances, sent home from workers abroad.” It concludes: “The Covid-19 pandemic will herald the worst economic contraction in the history of Latin America and the Caribbean.”

The United Nations Economic Commission for Latin America and the Caribbean (“ECLAC”) chief Alicia Bárcena said, “The effects of Covid-19 will cause the biggest recession that the region has suffered since 1914 and 1930. A sharp increase in unemployment is forecast, with negative effects on poverty and inequality.”

As of this writing, it is unclear when the cruise ship industry will be able to return to the Territory, with some reports indicating that it might not happen until 2022.

During the summer of 2020, a St. Croix-based firm, Island Analytics and Marketing LLC, conducted a survey of the impact of Covid-19 on businesses. It found that 33% of St. Croix businesses expected gross revenue losses between 50-100%. This number was 45% for St. Thomas businesses and 52% for St. John businesses.

Whatever the real numbers turned out to be, 2020 was the greatest disaster most businesses have ever experienced.

FISCAL TAILSPIN

The economy of the U.S. Virgin Islands took a severe hit following the closure of the Hovensa Refinery in 2012. Damage caused by two powerful hurricanes—Irma and Maria—that hit the U.S. Virgin Islands in September 2017 created additional economic and social challenges. Public revenues, according to estimates based on fiscal data from the U.S. Virgin Islands, were halved after the two hurricanes.

The U.S. Virgin Islands economy has relied heavily on tourism and related business activity, which made it more vulnerable to the effects of hurricanes than jurisdictions with more diverse economies. The severity of damage from Irma and Maria and the subsequent disruption of the tourism industry suggest that a full economic recovery could take years.

SEEING OPPORTUNITY

Severe economic contraction has a way of exposing system weaknesses, but it also focuses energies on expansion opportunities.

The USVI Hurricane Recovery and Resilience Task Force noted that the recovery process “provides an opportunity for the USVI to re-envision the territory’s future. Once the immediate response is over, disasters can open up space for investment, deliberation, and debate, allowing for alternative visions and change. The USVI similarly has an opportunity to leverage recovery funding to create a more modern, resilient, and equitable territory for its residents.”

There is widespread recognition that in addition to ongoing recovery efforts, the U.S. Virgin Islands must deal with underlying systemic weaknesses to reduce its exposure to future risks.

Some of the best talent from around the globe has been mobilized and there is now a deeper understanding of the need to strengthen capacity at all levels. The hurricanes and global pandemic are beginning to reveal real opportunities for the U.S. Virgin Islands to move beyond crisis mode actions and to substantively deal with its underfunded assets and long-standing institutional, economic, and societal problems. In short, to do things in different ways.

Invariably, studies on each of these disasters to date come to the same conclusion: the best safeguard against economic catastrophe is to fundamentally restructure and diversify the U.S. Virgin Islands

economy so that it is less dependent on any economic sector and produces good paying jobs that lift residents out of poverty and provide new sources of revenue so that the Territory can better manage future challenges.



Comments regarding the Government Employees Retirement System (GERS): “The system is in an accelerating death spiral. And for every day that goes by without taking definitive action to reverse the failing of the Government Retirement System, the decisions that ultimately need to be made become more painful and more costly. We all know this. We should also know that if the pension system fails it will affect far more than just the annuities of the retirees, the entire Virgin Islands economy will suffer the loss of over \$200 million annually.”

*Governor Albert Bryan
State of the Territory Address, January 25, 2021*

DRIVING FORWARD

Diversifying the Economic Base

Just as a business can be disrupted by a more agile competitor with a better product, so too can a place fail to anticipate and adapt to the changes the future brings, both of natural and human making. In such situations a place may find itself unwisely investing in programs and services unlikely to produce desirable, impactful outcomes.

Additionally, individual entities, programs, and services within a system can perform efficiently and effectively, while the overall system is falling short of addressing tough ongoing or emerging issues, or failing to meet the big picture impact desired by leaders and the public.

That is the position that the U.S. Virgin Islands unfortunately finds itself in. A key objective of Vision 2040 is to change that dynamic by diversifying the economic base, producing more job opportunities for residents and yielding investments that support greater prosperity for all. This is efficient stewardship of public resources.

Reconfiguring the economic base involves providing a supportive environment for business start-ups and ideal conditions for high growth businesses. The Territory must become more competitive by making it easier to start a business, reducing costs of doing business and increasing trade and direct foreign and domestic investment. It must develop and leverage its educational resources and separate from its



Cruise Ship leaving St. Thomas. *Photo Credit: Peter Hansen*

Caribbean neighbors by providing livable wages that will attract and retain talent.

The unique value proposition for the U.S. Virgin Islands can be for it to become a dynamic, innovative location. For this to happen it must better leverage its vast known and hidden resources to ensure that more of its residents become employed and contribute to the well-being of the larger community.

The Territory's economic development professionals and public and private sector leaders must be viewed as trusted catalysts for change and honest brokers for private investment. A unified coalition must be forged from and embraced by multiple public and private stakeholders all of whom are doing their parts to nurture economic growth.

Vision 2040 was initiated to move beyond traditional modes of thinking and operating that tended to protect turf and erect barriers—real and imagined—so that new voices could be heard, transparency assured, and bold and creative ways of thinking introduced into the future planning process.

Vision 2040 marks the Territory as a vibrant business location, one that exudes enthusiasm, develops, retains, and attracts people with creativity and imagination.

Beyond the Inflection Point

Between 2007 and 2019, the U.S. Virgin Islands lost 8,700 jobs: a loss of 19%.

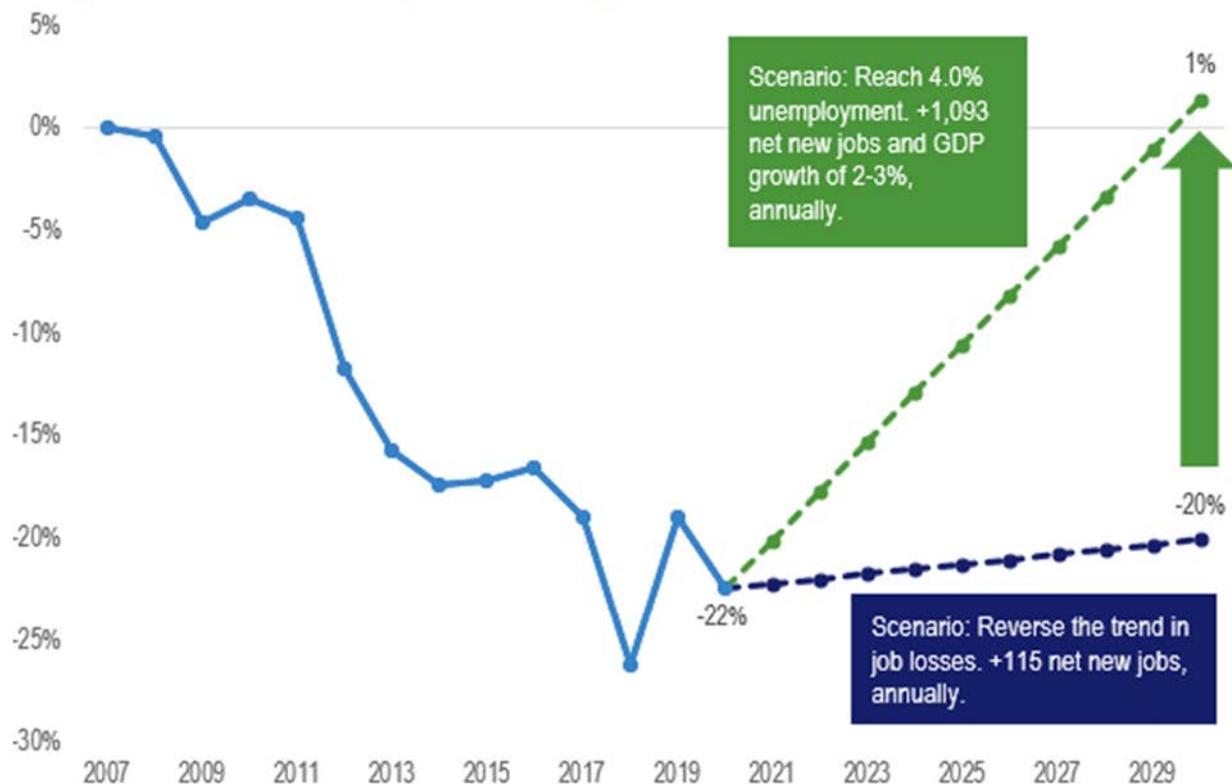
To begin to reverse this trend and change the trajectory, the USVI needs to add 1,100 jobs over the next decade. In other words, the USVI would need to add 110 net new jobs annually over the next ten years. This translates to an investment (measured by Gross Domestic Product) of \$11.4 million per year for the next ten years (\$114.4 million in total).

That is a conservative scenario that will only marginally improve unemployment rates and is unlikely to have dramatic impact on poverty rates.

Vision 2040 seeks a transformative scenario whereby the Territory reaches rates of full employment and positive job growth. To reach 4.0% unemployment, which is in a range at which the territory could achieve full employment, the USVI needs to add 1,093 net new jobs annually over the next ten years. This translates to an investment (measured by Gross Domestic Product) of \$113.8 million per year for the next ten years (\$1.1 billion in total) and annual economic growth of between 2-3%.

This is illustrated in the adjacent graph. With the transformative scenario (green line), unemployment levels (currently at least 10%) and the level of residents living below the poverty line (approximately 22%) can theoretically be expected to drop considerably, assuming there are proper educational and social supports provided.

Virgin Islands Percentage Job Change, 2007-2030



Note that this analysis assumes 4.0% unemployment, which is below the territory's unemployment rate of 5.9% in 2007, prior to the Great Recession. This is in a range at which the territory could achieve full employment. This analysis also assumes that population will increase by 5% by 2030 (from 2019 data, the most recently available population data at the time of publication).

Unfortunately, the Caribbean has few recent examples where dramatic economic growth occurred. An exception, Turks and Caicos Islands managed to achieve 4.4% average GDP growth over five years prior to the pandemic largely due to construction and related investments in the travel and leisure sectors.

The pre-Covid economy is history, and the challenge is not to return to a former economic state but build a more dynamic, diverse, and sustainable economy that is both fluid and resilient.

The new goal must be for the U.S. Virgin Islands to put in place an aggressive 20-year economic

strategy to not only quickly reverse direction, but to dramatically accelerate job growth and increase gross domestic product in the early years following adoption of a new strategy. The inflection point is still likely years out, and it will not occur with the industries and jobs of the past, but will be built on industries of the future. These job gains are unlikely to be won by “home runs” (large companies employing hundreds like Hovensa did), but rather by many “singles” and “doubles” (innovative small businesses and fast-growing, technology-based firms).

The Vision 2040 process confirmed that reaching the inflection point and sustaining growth for the U.S. Virgin Islands will occur with smart, measured, and steady investments in a new set of targeted industry sectors.

Sustaining growth for the U.S. Virgin Islands will occur with smart, measured, and steady investments in a set of targeted industry sectors.

Articulating a Vision for Change

The U.S. Virgin Islands is fairly positioned to compete with its neighboring Caribbean locations and throughout the Americas for business and investment growth opportunities.

It operates under the laws of the United States and, as a Territory of the wealthiest nation on the planet, it has benefited greatly. The Territory has very



Photo Source: U.S. Virgin Islands Department of Tourism

competitive tax benefits sanctioned by the U.S. government, including incentives which include 90% exemption on corporate income tax, 90% reduction of personal income tax, 100% exemption on gross receipt taxes, property, and excise taxes.

Compared to other locations in the Caribbean, the USVI provides a solid education for its residents, good infrastructure, easy access to the Americas, and potential for exceptional communications and broadband.

Its residents enjoy a lifestyle that can serve to attract talent from around the globe, but only if the cost of living is reduced and improvements are made to increase certain amenities and overall public safety.

These are just some reasons why the U.S. Virgin Islands has many of the fundamentals necessary for achieving economic prosperity in the future.

The path to reaching the 2040 destination will not be a straight line. Short-term plans and administrations will come and go—as they should to adjust to new realities. If along the way, everyone is committed to moving toward the same positive outcomes of Vision 2040, then a whole new generation will experience economic prosperity and enjoy a better quality of life.

Aspirational and Macroeconomic Goals

We cannot predict what the world will look like in 2040. Human and technological advancements, global changes from natural and societal influences, and economic disruptions will continue to occur at an ever-faster pace.

What will not change are the basic tenets of macroeconomics. Any increases in the production of goods and services will only be possible when existing resources are allocated efficiently.

For the U.S. Virgin Islands, achieving efficiencies will require fundamental changes in how residents are educated, rethinking how and why public services are delivered, and reprioritizing economic goals. That is what Vision 2040 set about to accomplish: engaging the residents of the U.S. Virgin Islands to commit to a better future by making it happen.

Based on the research conducted and strong engagement and outreach, the Vision 2040 Task Force agreed on two overarching goals and eight aspirational goals for the U.S. Virgin Islands. The recommendations and initiatives included in the strategic plan relate to achieving these goals.



MACROECONOMIC GOALS

Vision 2040 set two macroeconomic goals for the U.S. Virgin Islands.

The first is to reach full employment by 2030. Full employment exists when jobs are plentiful. It does not mean that everyone has a job; rather, no one is jobless unless they do not want to be employed.

The second macroeconomic goal is to achieve economic stability by 2040. This means that growth and prosperity have taken root, there are no excessive fluctuations in GDP, and prices for goods and services are reasonable, manageable, and stable.

ASPIRATIONAL GOALS

Vision 2040 also establishes eight aspirational goals to help the U.S. Virgin Islands achieve these macroeconomic goals. They relate to the targeted industries detailed in Volume 5 of this report. These goals are presented on the following pages.

Economic prosperity requires that all systems work harmoniously to realize mutual goals.

ASPIRATIONAL GOAL 1

Increase locally sourced food from 3% to **35%** of local food demand. Agriculture-related industrial production will increase from 2% of GDP to represent **5%** of GDP.



ASPIRATIONAL GOAL 2

The U.S. Virgin Islands will become a Blue Economy **research center of excellence** in the world for ocean-based tropical environments.

ASPIRATIONAL

GOAL 3

Healthcare and health sciences will increase from 7% of GDP to **15%** of the U.S. Virgin Island's overall GDP.



ASPIRATIONAL

GOAL 4

Entrepreneurs will have access to support and capital to scale their businesses and the **annual net change** in establishments will increase from 14 (2019) to **50 establishments**.

ASPIRATIONAL GOAL 5

Population in the U.S. Virgin Islands will increase **10%** from the official 2020 U.S. Census.



ASPIRATIONAL GOAL 6

Renewable sources of energy will represent **75%** of total energy consumption, up from the 1% that they represent currently.

ASPIRATIONAL

GOAL 7

The U.S. Virgin Islands will have the **highest quality education system** in the Caribbean and the University of the Virgin Islands will attract and retain the highest caliber science and technology talent.



ASPIRATIONAL

GOAL 8

Extended stay visits, authentic experiences, and cultural offerings will increase from 63% of tourism-related revenue to **75%**.

This page intentionally left blank.