UNITED STATES VIRGIN ISLANDS
Economic Development Authority

VIRGIN ISLANDS ECONOMIC DEVELOPMENT AUTHORITY

TESTIMONY BY DWAYNE A. BENJAMIN, SR.

COMMITTEE OF THE WHOLE

36th LEGISLATURE OF THE VIRGIN ISLANDS

ST. THOMAS, VIRGIN ISLANDS

Good afternoon, Senator Novelle E. Francis, Jr., Chairman, members of the Committee on Budget, Appropriations and Finance, Legislative staff, the Virgin Islands Economic Development Authority ("USVIEDA" or "the Authority") team, and the viewing and listening audience. I am Dwayne A. Benjamin, Assistant Chief Executive Officer of the Virgin Islands Economic Development Authority. I bring greetings on behalf of Wayne L. Biggs, Jr., Chief Executive Officer of the Virgin Islands Economic Development Authority, who is out of Territory on official business presenting along with other colleagues at the International Economic Development Council Leadership Summit and is unable to attend today. I am joined today by USVIEDA team member, Kirk Callwood, Associate Managing Director, Economic Development. It is indeed my pleasure to give support of the proposed amendments to 29 V.I.C. § 1313 of the Hotel Development and Finance Program Act ("HDA").

The Virgin Islands Hotel Development program is designed to assist in the development of hotels, resorts and related hotel facilities to increase opportunities in tourism enterprises in the U.S. Virgin Islands so as to facilitate and to accelerate opportunity for employment in these enterprises, particularly of unemployed and underemployed residents of the jurisdiction in which the hotel investment is to be made.

By way of background, the Hotel Development and Finance Program Act ("HDA") was enacted in 2011, and subsequently amended in 2018 (Act 8030), and thereafter in 2019 (Act 8056) to include amongst other amendments the Economic Recovery Fee ("ERF") Incentives. The program allows for the use of future gains in hotel room occupancy taxes and casino taxes to assist in the development areas which would not happen solely through private investment in the reasonably foreseeable future. Monies generated from the Hotel Development and Finance Program are deposited into a separate hotel development and finance trust fund which is established for each approved project. Funds allocated and deposited into the hotel development and finance trust fund are from the hotel and casino taxes generated from the approved project.

The Hotel Development Program was created to encourage and promote investment in and development of hotels and related facilities in the U.S. Virgin Islands to include reconstruction and renovation of existing hotel facilities. This program is administered through the Virgin Islands Economic Development Commission, which is a subsidiary entity wholly administered and operated by the Virgin Islands Economic Development Authority.

Currently, developers may receive as follows:

(1) For New Hotel Projects (all non-appealable development permits have not been finalized prior to the effective date of this act) - 100% of the revenues generated from the Designated Hotel Room Occupancy Tax, Designated Casino Tax on Gross Revenue, and the Economic Recovery Fee, if applicable, shall be allocated to and deposited into the Project's Fund.

(2) For Hotel Projects where not less than 70% of the units have not been able to be occupied due to natural events or related effects- 50% of the revenues generated from the Designated Hotel Room Occupancy Tax and the Designated Casino Tax on Gross Revenue shall be allocated and deposited into the Project's Fund; and 100% of the revenues generated from the Economic Recovery Fee, if applicable, shall be allocated to and deposited into the Project's Fund; and

(3) For Reconstruction and Renovation of existing hotel sites where less than 70% of the units have not been able to be occupied due to natural events or related effects - 100% of the revenues generated from the Economic Recovery Fee, and no revenues generated from the Designated Hotel Room Occupancy Tax and the Designated Casino Tax on Gross Revenue shall be allocated to and deposited into the Project's Fund.

Designated Hotel Occupancy Tax and Economic Recovery Fee are granted for a period of 30 years or until such time the direct investment is liquidated, whichever is earlier. The amount of the Economic Recovery Fee for any approved ERF project shall not be greater than 7.5%.

To date the USVIEDA has considered applications for the redevelopment of two existing hotel properties, RC Hotels (Virgin Islands), Inc d/b/a the Ritz Carlton St. Thomas and CREF3 USVI Hotel Owner, Inc. d/b/a The Westin St. Thomas Beach Resort & Spa and Bouy Haus Beach Resort St. Thomas, Autograph Collection. The USVIEDA has considered the application for the development of one new hotel property, Haven Development, LLC d/b/a Hampton by Hilton St. Thomas, the first new hotel development in over 30 years in the U.S. Virgin Islands, adding 126 rooms to the hotel inventory. As a result of the Designated Hotel Occupancy Tax and/or Economic Recovery Fee, these Developers were able to reinvest and upgrade the existing properties that were shuttered as a result of Hurricanes Irma and Maria and invest in the construction of a new property resulting in direct, indirect, and induced activities spurring economic growth in the Territory.

The proposed amendments to § 1313 of the HDA, if approved, will allow existing hotel properties located in the St. Croix District to access 100 percent of the Designated Hotel Occupancy Tax for hotel facility improvement and/or expansion projects based on project spend in excess of $25 million and the addition of at least 25 percent more rooms within a 5-year timeline or 50 percent of the Designated Hotel Occupancy Tax for hotel facility improvement and/or expansion projects based on project spend in excess of $10 million within a 2-year timeline.

The three HDA projects previously mentioned are all located within the St. Thomas/St. John District. Hotel development in the St. Croix District remains in a proverbial quandary of which comes first, "the chicken or the egg". Airlines indicate that they don't add additional flights to the St. Croix market because there is not enough hotel room inventory to support additional airlift, and investors indicate that financing hotel projects is too risky on St. Croix because there is not enough airlift to support the development of additional hotel rooms. Allowing the Designated Hotel Occupancy Tax to be rebated for improvement and/or expansion projects on St. Croix is a game changer as it reduces investment risk and helps to encourage investment in projects. Additionally, it is less risky and easier for going concerns with a historical track record to secure financing than it is for start-up projects. This would be another tool in our toolbox to encourage the development of more rooms and/or additional facilities at existing hotel properties on St. Croix thereby increasing room inventory, improving facilities that enhance the Territory's overall tourism product, and improving the guest experience.

We acknowledge that approved projects for existing hotels may have a slight impact on the Tourism Revolving Fund as occupancy taxes will be rebated to liquidate the approve project debt, but we believe the long term benefits of increasing the hotel room inventory and the expansion of hotel facilities that improve the guest experience will outweigh the short-term costs.

Thank you for the opportunity to provide testimony supporting the proposed amendments to 29 V.I.C. § 1313 of the Hotel Development and Finance Program Act ("HDA"). I remain available to answer any questions that you or members of the committee may have.

Again, thank you.