Testimony of

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On behalf of

Lisa M. Alejandro
Commissioner of the Department of Property & Procurement

On

(BR #36-1154/G36-072)

Reinstated & Amended Lease Agreement between the Government of the Virgin Islands and Water Island Development Company, LLC

Before

Committee of the Whole

Tuesday, August 4th, 2026

Earle B. Ottley Legislative Hall
ST. THOMAS, U.S. VIRGIN ISLANDS

Good Morning, Committee Chair Milton E. Potter, Vice-Chair Kenneth L. Gittens, Honorable Senators, Central and Legislative Staff, fellow testifiers, visitors present in the chambers, and members of the viewing and listening audience.

I am Vincent Richards, Assistant Commissioner of the Department of Property and Procurement (DPP), and am joined virtually by Attorney Daniel Mita, Legal Counsel from the Duane Morris Law Firm.

I appear today on behalf of Commissioner Lisa M. Alejandro to present testimony in support of the Reinstated and Amended Lease Agreement between the Government of the Virgin Islands and Water Island Development Company, LLC, for the development of Government-owned property on Water Island. Pursuant to 31 V.I.C. § 205(c), this proposed lease amendment requires approval by the Legislature of the Virgin Islands, thus the Department respectfully requests the Committee's favorable recommendation and, ultimately, the approval of the full Legislature.

For Background, in 2014 following the issuance of a Request for Proposals (RFP), the Government of the Virgin Islands (GVI) entered into Lease No. BCT-383 with Water Island Development Company, LLC for the development of a resort project on an assemblage of government-owned properties on Water Island. The lease was originally executed on December 23, 2014, and became effective on January 1, 2015.

The project subsequently encountered significant delays and diminished performance as a result of extraordinary external events, including geopolitical and economic disruptions, Hurricanes Irma and Maria, and the COVID-19 pandemic causing the project's progress to slow considerably. On April 11, 2025, the Department of Property and Procurement initiated proceedings to terminate the lease agreement, which was subsequently timely rescinded.

Immediately thereafter, the Department was approached by Bluewater Global Advisors, LLC and Innovative Architecture the potential restructuring and revitalization of the project. The Department engaged the services of Duane Morris, LLP and entered into extensive negotiations, emerging with a restructured Water Island Development Company, LLC team involving Bluewater Global Advisors and Innovative Architecture. These negotiations resulted in updated terms designed to restore the project's financial stability, advance it toward successful implementation, and better protect the interests of the Government of the Virgin Islands.

The proposed development will consist of a five-star resort destination featuring an 88-key branded hotel, marina, spa, and restaurants. The project will now include approximately 90 branded residential units consisting of condominiums, townhomes, and villas. Additionally, the development plan includes workforce and employee housing village, a retail village, with facilities to support police, fire, medical, and security services.

The developer required to invest a minimum of Three Hundred Million Dollars ($300,000,000) in private capital, including approximately Forty Million Dollars ($40,000,000) dedicated to critical needed infrastructure improvements. This represents a substantial increase from the One Hundred Forty Million Dollar ($140,000,000) investment contemplated under the original lease.

Planned infrastructure improvements include roads, drainage systems, potable water infrastructure, wastewater and solid waste management systems, utility improvements, and marine-related infrastructure. These investments are expected to benefit both the project and the broader Water Island community while reducing financial obligations that might otherwise fall upon the Government.

The reinstated and amended lease agreement provides for a term of ninety-nine (99) years, with an option to renew for one additional two-year term. Let me be clear, the Government retains ownership of the leased property while receiving substantial value through lease payments, a minimum $300 million private capital investment, approximately $40 million in infrastructure improvements, performance security, revenue-sharing provisions, and numerous contractual obligations. Accordingly, the Department evaluated the Amendment based upon its overall economic value and long-term public benefits rather than solely on the value of the unimproved land.

The amended lease provides for a construction period of up to sixty (60) months, during which monthly rent will be reduced to One Thousand Dollars ($1,000). After construction the annual rent for the leased premises will be One Hundred Twenty Thousand Dollars ($120,000), payable in equal monthly installments of Ten Thousand Dollars ($10,000). Beginning in the tenth lease year, annual rent shall <u>now</u> increase to Two Hundred Forty Thousand Dollars ($240,000), payable in equal monthly installments of Twenty Thousand Dollars ($20,000). Beginning in the twenty-fifth lease year, and every five years thereafter, the annual rent shall increase by five percent (5%).

In consideration for making the Property available for the development of the branded Residential Units, the amended lease provides the Lessor will share in the economic value created through the development and sale of the Residential Units. Accordingly, upon the closing of each Residential Unit, Lessee is required to pay Lessor six percent (6%) of the gross purchase price received for that unit as compensation for the enhanced value generated by the Project. Based on the Project's anticipated sales, this Residential Sales Participation is expected to generate approximately Sixteen Million Dollars ($16,000,000) for the Lessor. In addition, the development is expected to generate significant revenues for the Government of the Virgin Islands through stamp taxes on property transfers and recurring annual real property taxes.

The amended lease agreement incorporates additional financial protections for the Government through a Three Million Dollar ($3,000,000) performance bond issued by a financial institution approved by the Government. The bond secures the developer's pre-development and early-stage obligations, including obtaining permits and approvals, and may only be reduced upon the achievement of specified project milestones.

Under the proposed amendment, the Government will lease Tract B, Water Island, consisting of approximately 32.335 U.S. acres; Lots 24 and 25, consisting of approximately 1.492 U.S. acres; Flamingo Parcels totalling 1.194 acres and additional acreage in Areas V, Y, Tract E, Areas W, X, I, L, N, M, M-1, K, O, and P, Tracts A and D, Areas R, S, T, Tract F, and Plot D, consisting collectively of approximately 144 U.S. acres more or less. The amendment notably removes the Catchment Area and Tract C from the leasehold, returning those areas to the possession and control of the Government of the Virgin Islands.

Importantly, the amended lease returns Honeymoon Beach and the Catchment Area to Government control, preserving public ownership of these valuable resources. The developer has also expressed its interest to enter into a Memorandum of Understanding with the Government to enhance, maintain, and manage the beach area, demonstrating a commitment to responsible stewardship while improving public access and amenities.

Water Island represents a unique opportunity for sustainable development within the U.S. Virgin Islands. As the smallest of the four main islands, encompassing approximately 491 acres and located within Charlotte Amalie Harbor just south of St. Thomas, the island combines strategic location, natural resources, and significant undeveloped land. The 1996 transfer of substantial portions of the island to the Government of the Virgin Islands created a foundation for thoughtful planning, public stewardship, and economic opportunity.

Water Island represents a strategically significant opportunity for sustainable community and economic development within the U.S. Virgin Islands. With a resident population of approximately 164 people, the island maintains a small, close-knit character defined by a mix of private properties, public lands, and substantial undeveloped areas. Its natural and recreational assets, including Honeymoon Beach, marine activities, boating, and day tourism, attract visitors while reinforcing its role as a unique destination within the Charlotte Amalie Harbor area.

The Government-owned lands on Water Island represent one of the Territory's most valuable undeveloped public assets. Positioned adjacent to Charlotte Amalie Harbor and within close proximity to major tourism, maritime, and cruise industry infrastructure, the island offers significant potential for carefully planned economic growth. Its location along key cruise, ferry, and yacht routes, combined with access to downtown Charlotte Amalie and the West Indian Company dock facilities, creates opportunities to enhance tourism, support maritime activities, and improve public amenities while preserving the island's environmental resources, community character, and long-term sustainability.

With responsible planning, the development can diversify the Territory's tourism product by expanding attractions and amenities that increase visitor spending, encourage longer stays, and strengthen the Virgin Islands' marine and blue economy. Opportunities include eco-tourism, marina and marine recreation, boutique hospitality, waterfront dining, cultural attractions, public recreational amenities, workforce and affordable housing, yacht servicing, ferry transportation, maritime training, and environmental programs. Properly developed, Water Island can become a complementary extension of the Charlotte Amalie Harbor district while preserving its low-density character, natural resources, and unique island identity.

The Virgin Islands continues to face housing shortages affecting workforce recruitment, hospitality operations, public services, and economic growth. The proposed workforce and employee housing component will help address these challenges while easing housing pressures on St. Thomas. To further expand homeownership opportunities for Virgin Islanders, the

Amendment requires the Lessee to develop and reserve ten condominium units for eligible veterans and an additional ten condominium units for eligible middle-income Virgin Islanders, each at a fixed purchase price of $250,000 for purchasers determined eligible by the Virgin Islands Housing Finance Authority and the Government. The Lessee will also pay all applicable stamp taxes, connect each unit to the project's utility infrastructure, and provide utility services. These provisions reduce barriers to homeownership while advancing the public purposes of affordable housing, honoring our veterans, and expanding economic opportunities for Virgin Islands families.

The proposed amended lease does not require prior approval from the U.S. Department of the Interior to be enacted, approved by the Legislature, or become effective. Any Department of the Interior approval is limited to the future conveyance of certain residential lots and is expressly included in the Amendment as a condition precedent to those conveyances. Accordingly, the Amendment may be implemented upon approval, while no residential lot may be conveyed unless and until all required federal approvals have been obtained, thereby protecting the interests of the Government of the Virgin Islands and ensuring compliance with applicable federal law. This provision functions as a standard third-party consent requirement and serves to protect the interests of the Government of the Virgin Islands by ensuring that no conveyance is completed unless all applicable federal requirements have been satisfied.

The Department conducted extensive public outreach on the proposed amended lease including through a recent widely advertised public meetings attended by residents, media, and other stakeholders. Participants were given ample opportunity to ask questions, express concerns, and provide comments, with meetings extended as needed to ensure every attendee was heard. In response, the developer submitted multiple rounds of written answers addressing approximately eighteen pages of public questions. While additional issues may arise as the project progresses, those matters are appropriately addressed through the planning, environmental review, and permitting processes. The Department remains committed to continued public engagement throughout those regulatory reviews.

Approval of this amended lease does not diminish or affect the rights of residents and stakeholders to participate in future public review and regulatory processes. All existing opportunities to submit comments, attend public hearings, raise concerns, and engage in permitting and environmental review procedures remain fully preserved throughout subsequent stages of project evaluation including reviews by the Department of Planning and Natural Resources, the Coastal Zone Management Commission, the U.S. Army Corps of Engineers, the U.S. Fish and Wildlife Service, and any other agencies with jurisdiction before any construction may commence. The Amendment solely authorizes the lease agreement and establishes a framework for potential future development; it does not approve specific development components, including building locations, marina facilities, roadways, utilities, environmental impacts, or construction activities. Any future projects will remain subject to all applicable federal and territorial permitting requirements, including required public notice, review, and comment opportunities.

The proposed amended lease represents a substantially stronger agreement for the Territory than the original lease. Although the original lease was terminated and is now being reinstated in amended form, the revised agreement provides significantly greater economic protections and public benefits for the Government and the people of the Virgin Islands. These enhancements include increased rental revenues; a binding commitment to invest a minimum of Three Hundred Million Dollars ($300,000,000) in private capital; a Three Million Dollar ($3,000,000) performance bond to secure early-stage obligations; revenue-sharing provisions tied to residential sales; the return of Honeymoon Beach to public ownership and access; and the development of twenty (20) affordable housing units for eligible Virgin Islanders and U.S. Virgin Islands veterans.

The United States Virgin Islands has not seen the development of a new, full-scale resort hotel in decades, making this project particularly significant. The recent acquisition and planned renovation of the former Carambola Resort by Club Med, together with this proposed development, demonstrates renewed investor confidence in the Virgin Islands and confirms that nationally and internationally recognized hospitality investors once again view the Territory as a competitive destination for significant long-term investment. These investments demonstrate that developers and internationally recognized hospitality brands view the Virgin Islands as a competitive destination for long-term investment, creating opportunities to expand the Territory's lodging inventory, attract higher-value visitors, generate construction and permanent employment, increase tax revenues, and stimulate broader economic activity. Collectively, these projects represent an important step toward modernizing the Territory's tourism product and strengthening the economic foundation upon which so many Virgin Islands businesses and families depend.

The amended lease places the project in a stronger position for successful implementation than at any time in recent history. Combined with the Virgin Islands' status as a United States jurisdiction operating under U.S. legal and financial systems, VI Hotel Development Act, Virgin Islands EDA incentives, advancements in construction technology, modular building systems, resilient engineering practices, and sustainable infrastructure solutions further enhance the project's potential viability. These innovations may reduce development costs, shorten construction timelines, improve hurricane resilience, and support environmentally responsible development while preserving Water Island's unique character and natural beauty.

Senators. People of the Virgin Islands. Yes, the amended lease will significantly change the demographics of Water Island through the development of an Employee Village, and additionally with the advent of Affordable Housing for eligible U.S. Virgin Islands veterans and other qualifying Virgin Islanders. But it will expand housing options, support the local workforce, and create new well paying job opportunities for Virgin Islands residents. Yes, some Virgin Islanders will work closer to home on Water Island, no longer needing to rely on early morning departures or extended ferry commutes to access the employment opportunities. Yes, the amended agreement will also require individuals who currently moor sailboats and yachts or maintain unauthorized private docks in Flamingo Bay without permits or compensation to make alternative arrangements.

Chairman Potter and Members of the Committee, the proposed amended lease has also been significantly reshaped in response to public input and stakeholder concerns. It represents a substantially stronger agreement than the original lease. It increases the developer's minimum private investment commitment from $140 million to at least $300 million, strengthens the Government's financial protections through enhanced performance security and revenue-sharing provisions, returns Honeymoon Beach and the Catchment Area to Government control, creates affordable homeownership opportunities for veterans and middle-income Virgin Islanders, and positions Water Island for responsible long-term economic development while preserving all future permitting and public participation requirements.

For these reasons, the Department respectfully requests the Committee's favorable consideration of the Reinstated and Amended Lease Agreement. Thank you for the opportunity to present this testimony. I would be pleased to answer any questions the Committee may have.