

The Water Island development demonstrates V.I. need for more transparency in government-funded projects

The increased attention and questions surrounding the proposed hotel development and associated facilities on Water Island demonstrates the need for analysis and transparency for all public projects, and private/public projects in particular.

The development has been in the planning stages since 2014. It captured renewed public interest in the recent weeks following proposals for bill amendments that would allow the government to finance the project through tax increment financing.

Tax increment financing allows governments to finance a project with bonds secured by future tax revenue. As value increases (hopefully) from properties in the designated area as a result of the development, the government pays some portion of the project financing cost from the difference between the anticipated increased tax revenue and the base tax revenue calculated at the onset of the project.

This financing method transfers some of the financing pressure from the project's developers to the government.

The government takes on this risk in the hope that the development will bring economic activity and community development to the area in the form of jobs, housing, revenue, and infrastructure.

According to a recent report in The Virgin Island Daily News, the developer for the Water Island project anticipates that the planned 100-room, five star hotel will bring 300 permanent jobs to the island, along with 600 construction jobs, and up to 1,000 additional jobs "as a secondary effect."

Furthermore, the report notes, the development will add 124 permanent mixed-income housing

and veteran residences, as well as other infrastructure such as a water treatment plant and a marina.

Tax increment financing, if allowed, will provide the developer of the Water Island project \$335 million in government funding. This \$335 million will combine with the approximately \$110 million contributed by the developers and address all project development cost.

Cause for concern

Despite the promised benefits from the project, these figures, and the government's share of the costs, compared to the developer's, give rise to understandable concerns within the community as to the prudence of the deal.

To the extent that this skew exists because of the cost of constructing public facilities, then that skew is understandable. However, if the developer will, over time, receive an economic return from all or some portion of the facility financed by the government the questions arise:

How much, for how long, and what are the economic benefits beyond job creation that the government realizes from its investment in the project.

The developer's representative argues that the Water Island development will benefit the Water Island community through improved infrastructure and benefit the Virgin Islands more generally through increased economic activity from tourism, investment, and construction. He notes that tax increment financing is an established method of financing similar projects.

Tax increment financing, however, it is not without its dangers.

An article, "Does Tax Increment

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Christopher Visentin

Financing benefit economic development?" by Adam Millsap, Ph.D, of Florida State University and the Mercatus Center at George Mason University, outlines the risks of this method of financing, especially when applied to private projects such as hotels.

Specifically, he points out that the jobs and investment upon which proponents of the financing method rely are far from ensured, and the questions swirling around tax increment financing may mitigate its seeming benefits:

- Depending on the size of the area whose tax growth is designated to fund the project, it may be unclear whether all of the new revenue will result because of the project. Is the financing, therefore, "capturing" and committing revenue growth occurring independent of the project?

- Is the anticipated growth truly new growth? Or has it simply shifted investment away from another area to the tax increment area?

- What is the motivation for government supporting the project development, and is the development focused on addressing that objective?

Tax increment financing can obscure the reason behind funding the

project. The scrutiny given to a new project development directly financed by tax revenue may not be similar to a project that commits future tax revenues resulting from a project, assuming these revenues materialize.

- Are there political incentives to invest in certain projects? If so, they can be motivated by different goals, or sometimes-inconsistent assessment of the project.

- There is a serious risk of becoming distracted by noneconomic factors when using tax increment financing for private projects.

In previous Daily News op-eds, Virgin Islands Capital Resources has advocated for government participation in economic expansion to boost the Virgin Islands economy. Such investment, however, must be done "thoughtfully and after giving appropriate attention to cost and benefits, risks and returns."

The benefits and returns from the Water Island project are not a given, and the risks are not inconsequential.

The community needs to understand the logic and analysis of cost, benefits and practical concerns behind a decision to move forward and use tax increment financing for the project.

To start, the government can address questions already raised by members of the community, including:

- How large is the area whose tax

revenues will fund the project?

- What independent analysis substantiates the developers' contentions concerning project benefits?

- Who owns the constructed facilities funded by government tax revenue once the debt is retired?

- Who owns the land on which the project is developed, and is this mortgaged by the developer to secure his share of the financing cost?

- Does the developer benefit from a mortgage lien on assets financed by the government-supported project elements to secure his share of the project cost?

- Is the affordable housing component of this project compatible with the relative isolation of Water Island from services available on St. Thomas?

- Are there companion plans to improve transportation connectivity between the two islands?

- If the project fails to achieve its economic objectives, what government funds will be used to pay off the incurred government debt?

Without knowing more details about the funding or the government's criteria for assessing the development, the community cannot be sure that appropriate scrutiny of the project's elements and its financing implications has occurred. Obtaining answers to these questions neither suggests the project is a bad idea or a good idea. The answers help determine whether the proposal under consideration is good or bad.

At the moment, the community seemingly lacks the necessary information to make that determination.

— Christopher Visentin, Virgin Islands Capital Resources Inc., St. Thomas