



FAQ # 2

12/07/14

Water Island Development, LLC (WIDC) would like to engage in an open and transparent dialog with the community regarding the proposed development.

We continue to receive many comments about the development plan and expect many more as we go through the predevelopment process. In order to respond promptly and inclusively, we are using a "Frequently Asked Questions" (FAQ) format to provide a summary of questions received from the community and our responses. We will update the FAQ on a regular basis as additional questions are received.

The FAQ is posted on our website:

<http://waterislanddevelopment.com/>
Password: vision

In addition, we are emailing FAQ updates to our growing database of interested parties.

If you received the first edition of the Water Island FAQ by email from us, you are already included in the database.

If you did not receive it directly and wish to be added to the database to receive future emailed information, please sign up on the contact page of the website, or submit a direct request to Bob Jackson, our EVP-General Manager: bob@widc.vi

1) Question / Comment:

It appears that very few Water Island residents understood that the EOI included the potential for residential development. I now realize that the EOI makes reference in several places to the potential for residential development.

Response:

We were surprised that many Water Island residents seemed unaware of the potential for residential development. As you correctly note, the EOI clearly includes the potential for residential development in several places and requests that the developer's proposal outline their requirements for additional land and other incentives. Our EOI response and all follow up submittals consistently included the request for additional land.

The EOI addresses additional land and incentives in a number of places, including:

Page 2 of the EOI states:

“Moreover, the EOI will allow for the Government to better understand and more clearly define any infrastructure support services and/or requirements, if any, that a potential developer and/or operator may require in order to ultimately commit funds to the project and deliver an economically-viable world-class resort project to Water Island and the USVI.”

Page 5 of the EOI states:

First Paragraph: “The two designated sites can be described as unique; a significant advantage in light of the (Honeymoon) Beachfront site’s direct location on the sea, and the original Water Island Hotel and Beach Club site’s spectacular views of Druif and Flamingo Bays. Collectively, these attributes make these two of the most picturesque destinations in the Caribbean. These two specific sites as outlined below are under deed restriction and specifically designated for resort development, either alone or in combination. Furthermore, the Government of the USVI is open to residential development within the additional parcels of land surrounding the Upland/Marina Site as discussed below.”

3rd Paragraph: “Upland/Marina Site – the site of the original Water Island Hotel and Beach Club. This site is situated on the peninsula between Druif Bay and Flamingo Bay, suitable for redevelopment as a resort location or ancillary benefits to a more primary location. Land surrounding Flamingo Bay could be used for a small marina for the resort’s boat launch. Moreover, supplementary plots of land surrounding the site can potentially be used for residential uses as part of the overall development project.”

Page 17 of the EOI – titled “Required EOI Content” states:

The following should be submitted by interested parties:

“.....Any additional consideration either in the form of incentives or in the form of additional land development rights.”

The hotel, the marina, the residential component and the Institute all represent integral parts of the overall resort concept, each element supporting the other both economically and from a branding perspective. The residential component does tie into the hotel in that we envision the hotel providing catering, housekeeping and concierge services to the individual residences; this provides us with the ability to gain more economies of scale without increasing the hotel size to a level that is out of proportion to Water Island.

2) Question / Comment:

The unmet infrastructure needs for Water Island are huge. The VI government does not seem to have the funding or the manpower to provide Water Island residents with basic needs like decent roads, public water, adequate fire and emergency services, clean and attractive beach facilities and environmentally sound trash disposal. The development of a hotel will exacerbate this situation. How do you propose to handle this?

Response:

We agree, there is a need for immense infrastructure investment on Water Island in order to adequately serve current and future residents as well as the hotel / marina.

As WIDC reviewed the EOI and started formulating our response we realized infrastructure was one of the major hurdles. We concluded that we would need to find a funding source to provide for extensive infrastructure. We also realized that:

- a. **The USVI Government, who would ordinarily be responsible for developing adequate infrastructure on Water Island, is unable to make a large capital investment in Water Island infrastructure or complete improvements in the short time frame required.**
- b. **No private developer, including WIDC, will be willing or able to fund the extensive infrastructure improvements needed for the hotel /marina or for rest of the island. This level of infrastructure is typically a responsibility of the government.**
- c. **A long term funding source for ongoing maintenance and eventually replacement of these infrastructure items also needs to be included.**
- d. **Many of these items will benefit the entire island, providing a better quality of life and enhancing everyone's real estate values.**

Some of the primary infrastructure requirements are:

- New or substantially improved roads
- Alternative energy
- Storm water drainage
- Underground utilities
- RO plant
- Wastewater treatment plant
- Marina – with dinghy and local boat dockage
- Public gas / fuel station
- Efficient and environmentally sensitive trash disposal
- Improved fire protection
- Improved emergency service facilities
- Beach vehicle parking and public restrooms.

- e. **WIDC will need to coordinate the design and construction of the infrastructure.**

We considered a number of options for securing funding for the necessary infrastructure improvements, including:

- a. Creation of a special taxing district on Water Island so that all current real estate owners as well as future owners pay their fair share of improvements.
(ruled out because we prefer not to see everyone's taxes go up substantially – again)
- b. Request that the GVI issue tax exempt bonds to fund the infrastructure
(ruled out because of time and political constraints)
- c. Utilize the recently enacted USVI Tax Increment Financing statute to fund infrastructure.
TIF funding seems like the most viable option.
The act was specifically designed for this purpose, encouraging economic development by funding infrastructure costs from future tax revenue generated by the development.

TIF funds can only be used for qualified infrastructure and related items. The TIF bonds are repaid from Government revenue received as a result of the development, including gross receipts taxes and ad valorem taxes.

Although the developer would ordinarily receive an exemption from real estate taxes as one of the statutorily available incentives for this type of development, WIDC will agree to fund an annual Payment In Lieu of Taxes (PILOT) during the initial 30 year project period. **These funds along with other tax incremental revenue will be used to service the TIF debt and to capitalize a sinking fund for ongoing infrastructure maintenance and repairs.**

WIDC will apply, through the VI Economic Development Authority, for the TIF funding, which is available by statute to qualified projects.

3) Question / Comment:

I don't understand why the Hotel development projects' economic viability is dependent upon additional residential development. It is baffling that this would be a stumbling block to an otherwise viable project.

Response:

The hotel and marina development are not viable without the additional residential development. As outlined in #2 above, the infrastructure needs are immense. TIF funding is the most viable source for these funds. Repayment of the TIF bonds comes primarily from tax revenues generated from the hotel PILOT agreement and from real estate taxes on new residential development.

Additionally, lenders and investors in resort hotel properties almost universally expect a residential component to buttress the economics of the development. Without a residential component the funding sources would be unduly limited.

4) Question / Comment:

What does WIDC intend to do with all the land it proposes to buy from the USVI? The first edition of the FAQ indicates that the residential component will be composed of primarily high end villas on large parcels. I know this is planned immediately around Flamingo. But what is planned for K, L, M, N and Y? How would the development be tied to the hotel?

Response:

We believe that existing Water Island residents and property owners have a strong identity of interest with WIDC regarding quality and scale of development. Essentially, what is good for the hotel is also a benefit to other Water Island owners. A well planned hotel, marina and residential development along with comprehensive infrastructure investment will result in a desirable place to visit, live and invest, resulting in increased real estate values and a better quality of life for all.

In order for the hotel to be successful, it needs to be a 5 star boutique hotel with appropriate amenities in a location that supports the quality expectations of our guests. The development of any inappropriate homes, buildings or property uses would have a severely detrimental impact on our ability to succeed.

The original hotel was approximately 150-160 rooms at its peak. We are maintaining

approximately the same size hotel but by developing three smaller hotel components spread between the Honeymoon Beach hillside, the original hotel site and the catchment area we are able to provide a much lower density and smaller scale buildings. This approach is more fitting for preserving the look and feel of Water Island and for the luxury 5 star boutique hotel model.

The hotel, the marina, the residential component and the Institute all represent integral parts of the overall resort concept, each element supporting the other both economically and from a branding perspective. The residential component does tie into the hotel in that we envision the hotel providing catering, housekeeping and concierge services to the individual residences; this provides us with the ability to gain more economies of scale without increasing the hotel size to a level that is out of proportion to Water Island.

Any additional parcels WIDC purchases from the government or from private individuals will be developed in accordance with the statutory requirements, including current W-1 zoning.

Parcels in the immediate area of the hotel sites will have the highest density, but still limited to no more than 3 stories in compliance with current zoning.

Parcels further removed from the hotel and marina sites will be primarily single family villas.

Detailed land use plans for additional parcels are being developed and will be shared when available.

5) Question / Comment:

Does WIDC plan to purchase additional privately owned parcels? If so, how and when?

Response:

We do not need to purchase any additional parcels from private owners to develop the hotel/marina as currently planned.

However, there may be parcels that are desirable for future use. _

After our entitlements are fully in place, including Army Corps of Engineers, CZM and all DPNR requirements, we will consider purchasing additional parcels.

If we decide to purchase additional parcels, we will have each parcel of interest appraised and we will then offer the owner the appraised Fair Market Value (FMV) plus a premium based on the desirability of the parcel.

6) Question / Comment:

How will the project be financed, and are there any local investors?

Response:

The principals of Water Island Development Company are Virgin Island residents. Collectively, we have a long history of investment in the USVI and a proven track record of performance. Mr. Evans-Freke and Mr. Barber are venture capitalist who have successfully grown numerous businesses, raising equity in the billions of dollars.

Mr. Jackson has a long history of real estate development in the USVI. Over the past decade he has raised over \$175,000,000 of funding for housing in the USVI. All of his developments were delivered on time and within budget.

The hotel, marina and infrastructure improvements will be funded with a combination of debt and equity.

The equity component will consist of private equity from qualified investors who will become limited partners in the development.

There may also be an equity component derived from EB5 financing, which has been used successfully for many hotel developments.

The debt component will likely be funded through private activity bonds, tax exempt bonds which will be sold through our selected investment banker in cooperation with the VI Public Finance Authority. The bonds may be structured as variable rate low floaters, allowing us to secure the lowest long term rates while managing interest rate risk with an interest rate swap.

7) Question / Comment:

The Legislature passed Act 6751 and subsequently Act 7321, providing for 30% of the VI Government owned property, approximately 60 acres, to be transferred to Virgin Islands Housing Finance Authority (VIHFA) to be used for affordable housing. Was this land ever transferred to VIHFA and how do you plan to address this issue?

Response:

WIDC is a strong proponent of affordable housing. The Virgin Islands economy is based on tourism and tourism is not possible without a strong and dedicated work force. All members of the VI workforce should be able to find safe, decent and affordable housing for their families.

Bob Jackson, our EVP-General Manager and a partner in WIDC has a long and successful history of working with VIHFA to provide exemplary affordable housing in the Territory, including Lovenlund Apartments, Grandview Apartments and Amalie Terrace all in St. Thomas. He has completed over \$175,000,000 of affordable housing development in the USVI. Bob is a passionate advocate for affordable housing.

Bob has had preliminary discussions with VIHFA and other government officials regarding this issue. Bob's opinion is that Water Island is not well suited for affordable housing for many reasons:

- 1) Lack of proximity to major employers
- 2) No schools on island
- 3) No shopping on island
- 4) No services on island
- 5) High transportation costs

It is our opinion that alternative affordable housing sites on St. Thomas should be found to offer a comparable amount of affordable housing in closer proximity to jobs, schools and services. Our preliminary discussions with Government officials seem to indicate that they

agree and that there is an opportunity to find an alternative site that works better for everyone.

We ask that the Water Island community support us in resolving this issue in an appropriate manner.

8) Question / Comment:

I am a resident and property owner on Water Island. I have recently read the information provided with regard to the Water Island Boutique Hotel project. How many of the units do you envision will be offered for sale as opposed to for rent of the projected 157 units?

Response:

The initial hotel and marina plan includes 122 suites or rooms and 35 resort supported residential units, including villas and townhomes in the Upland Marina area. We expect that all of these units will be operated as a revenue producing component of the hotel, with full hotel services and amenities. All of these units are on leased land.

It should be noted that Lot 24 & Lot 25 are included in the Lease and were clearly identified in the EOI as part of the parcels offered for lease.

9) Question / Comment:

Will the hotel and marina as well as infrastructure improvements be completed in the first phase of development?

Response:

Yes, the first phase of development will include the majority of the TIF funded infrastructure improvements, the hotel and the marina. The residential development market is purchasers who expect a luxury branded product with full hotel / resort services and amenities. The residential component is dependent upon the hotel, marina and amenities to be marketable.

10) Question / Comment:

It seems the huge development of the beach will make visitors feel like it is 'hotel property' and we would not be welcomed, rather we would be perceived as 'intruders'

Response:

The development plan for Honeymoon Beach purposefully limited construction to bungalow style units in one and two story buildings on the hillside, well above the beach area. The beach, as required by VI statutes is public and will remain public. The plan clearly shows facilities designed to serve the public, including a parking area and restroom / changing facilities. We will work with regulatory agencies to insure that the beach is managed and operated in an environmentally sensitive and sustainable manner, avoiding unregulated overuse and environmental damage.

11) Question / Comment:

Why is the Government willing to sell WIDC publicly owned parcels, why not offer them first to current residents?

Response:

The Government is required under the terms of the transfer from the Department of the Interior to make a best effort attempt to secure the redevelopment of a hotel on Water Island. Hotels in the Caribbean are costly to build and to operate, resulting in the need for Caribbean governments to offer developers incentives in order to make the developments economically viable.

The USVI Adopted the Hotel Incentive Act and Tax Increment Financing specifically to encourage the development of new hotels in the Territory. They have clearly defined their intent to re-brand the USVI as a luxury destination through the development of high end hotels, thereby recapturing overnight tourist dollars that have been lost to other destinations while also providing construction jobs, permanent jobs and economic stimulus to the Territory.

The sale of additional parcels to the developer for residential development are a necessary component of the incentive package, making the development economically viable.

The EOI extended an opportunity to all interested and qualified parties, including all Virgin Islanders, to respond to the EOI with proposals, including requests for necessary incentives, for redevelopment of the Water Island Hotel and Marina. WIDC along with several other parties responded and ultimately WIDC was selected as the most qualified respondent. The request for additional land was included in WIDC's response as a necessary component to make the project viable.