

**Address on Golf Course Project
June 8th, 2009**

Fellow Anguillians,

Over the past twelve months the Government of Anguilla has been faced with a number of consequential impacts from the global financial situation. Foremost among these have been a shortfall in tourism arrivals; challenges to obtain and maintain financing for a number of tourism projects in the early stages of implementation; slowdown of the construction schedule for one major project at an advanced stage of completion; and the stoppage of all construction activity on one of our main tourism development projects, namely, the Flag Luxury Properties project known as the Tenemos Resort & Golf Course. The latter has become the topic of discussion and debate in daily conversation; the print media; the radio talk shows; political platforms, and; other fora. I will hereafter refer to it as the Golf Course Project.

The Government of Anguilla has been extremely cautious in its approach to public discussion on certain aspects of the Golf Course Project negotiations in the context of the legal and fiduciary issues which are involved in the process. We have however on a number of occasions sought to involve members of the opposition both in the House of Assembly and meetings at the Secretariat with the intention of bringing some bipartisanship to the process. And to demonstrate our

readiness to adopt that approach --- we actually supported at least two motions by the Opposition in the House of Assembly on the topic.

While this period may be characterized as a political year we feel that the issue is important enough to merit the participation of all sides of the political spectrum. We are also aware that the wider public has great concern for this issue and are anxious to find a solution. Our experience, however, has been that the issue is being used as a political football without due regard to the critical realities surrounding the ongoing delay in the resumption of the project.

It is in this context and at this strategic juncture in the negotiations that the Chief Minister has asked me in my capacity as Minister for Economic Development and Tourism to clarify a number of the statements that have been tossed about; explain the reasons for Government's strong resolve to finding a way forward and outline the progress that we have made to date.

Since the third quarter of 2008, the Government of Anguilla has been in negotiations with the principals of the Golf Course Project to assist them in finding a way to overcome the challenges facing them since they were forced to shut down construction in early June last year. We thought that it was important enough to take a motion to the House of Assembly seeking support for developing an appropriate strategy for assisting the project in its efforts to obtain critical funding. We understood that this might require some unusual measures by the Government of Anguilla but we felt that the impact that the closure of

this project would have on the island would be devastating. Where we stand today is testimony to that foresight.

There were many persons who perhaps, understandably, were not supportive because the impression was maliciously circulated that Government assistance meant a direct cash injection into the project. Preoccupation with quieting those negative concerns could have been in fact a lost opportunity to bring an earlier response to the challenges of the project. And unfortunately it ended up with the closing of the Golf Course itself including maintenance and watering. But of course that is water under the bridge.

Still pressing forward in February of this year the principals of the Golf Course Project as a result of the persuasion of the Hon. Chief Minister and other Ministers decided that they would devise a way to restart the project and solicited the support of a team of four local Anguillian consultants to work with them to develop a viable proposal. The outcome of this joint effort was a proposal presented to GOA on March 23, 2009. The proposal indicated that a suitable buyer/operator was identified but certain preconditions were required to get the process going --- the main one being the acquisition of the Golf Course improvements by the Government of Anguilla.

Let me clarify that when I say the golf course improvements I mean all the costs involved in converting the over 100 acres of lands into an operating facility.

To put the issue even more clearly, let me state that the buyer could not in the present financial market conditions get funding for completing the project because the inclusion of the golf course component would make the overall business plan unattractive to lenders. It is an accepted fact that, a golf course, in and of itself does not make a profit --- it usually requires a strong real estate component to ensure viability. In fact in the last twelve months of operations the facility lost approximately 3.9 million US dollars.

It is in this context that the team's proposal included three possible options for the GOA to acquire the Golf Course. The justification for the acquisition of the Golf Course is based on the premise that only two entities can feasibly purchase the facility, namely, the buyer of the other components of the property because of the value-added or the Government of Anguilla because it would enhance the quality of our tourism product and increase its the overall revenue potential. Since the potential buyer/operator was unable to put together a feasible business plan to its lenders to include the purchase of the Golf Course facility --- the team presented the GOA with a structure whereby it could acquire the golf course improvements.

The three options presented to GOA were as follows:

- Purchase the Golf Course facility via a fifteen year loan with total payments of 83 million US dollars.**

- **GOA put together a public/private partnership to acquire the Golf Course facility via a fifteen year loan with total payments of 93 million US dollars**
- **The owner immediately transfers the Golf Course facility to the GOA for a nominal payment of \$1.00. GOA then grants an incentive to the project by the allocation of tax revenues (the suggestion being accommodation tax) for a period of thirty years.**

The presentation of these three options required GOA to indicate in a letter of intent its readiness to accept any one of them as a way forward. However, the presenters indicated a willingness to discuss any alternatives and modifications which GOA may wish to propose. You may ask the question: why would the GOA even consider any of these options? Let me explain!

I find it at this juncture useful to quote a part of an open letter to the Chief Minister from Mr. Sheridan Smith, CEO/Owner, Sheritons Development Inc. Mr. Smith writes and I quote: “If this is the only logical way to get this property restarted, and to alleviate the financial burden off the shoulders of the Anguilla people, some careful thought and action should be applied. We do not have the luxury of time on our side. The state of the economy is speeding down a slippery slope and the Government should --- in my humble opinion --- find the moral and political will power to implement a prompt settlement of this ongoing disaster.” Those are of course the views of an assertive and enterprising

Anguillian who has built one of the most elegant and top class tourism resorts on the island. He concludes by writing and again I quote: “This is a matter of economics and should not be politicized.” I can assure you that Mr. Smith is not an individual who would allow anyone to put words in his mouth.

I have used that abstract from Mr. Smith to provide a backdrop for the concerns which led GOA to consider the options presented to us. Let me list some of these concerns briefly:

- The Golf Course was a major initiative by GOA to enhance our tourism product and remains a critical element of our business plan and promotion strategy**
- We need to protect future jobs and business opportunities**
- We must defend the interests of local creditors, vendors and contractors who are now owed several million dollars collectively and in some cases separately. Including the GOA.**
- Anguilla cannot afford a “white elephant” after committing so many resources to its implementation.**
- If we lose this golf course the next one is probably about two years from completion --- even so more than one golf**

course facility has a multiplier value for golfers in terms of choice of destination.

- **If we do not find a solution in a timely manner we can conceivably end up in a long period of litigation which in terms of its complexity would exceed/dwarf the Cap Juluca matter.**
- **The local rental sector which was encouraged to respond to the needs for all kinds of accommodation is beginning to feel the pinch and if we do not protect their source of business they face a real threat of mortgage failures and foreclosures.**
- **Anguilla does not have a formal social safety net system that is institutionalized and funded to support persons who have lost jobs and business opportunities --- as a consequence there is a real chance of social and political instability as a result of the failure of large ventures such as this.**
- **The central government budgetary situation requires some form of immediate to short term stimulation --- because our key revenue streams are dependent on consumption which requires purchasing power.**

- **The project involves a number of stakeholders not the least among which are a number of international buyers who have chosen to invest in this project and Anguilla --- these homeowners/buyers need our support and assistance --- and they too are making sacrifices. They have not chosen the route of going to the World Press --- so to maintain Anguilla's good name and reputation as an excellent place to invest we should not let them down.**

While the foregoing list of concerns is not exhaustive there are a number of reasons why the GOA decided that of the three options it would prefer to negotiate on modifications to option three, that is, the immediate transfer of the facility to the GOA for \$ 1.00 and the granting of an incentive to the project via the allocation of future revenue streams in particular accommodation tax for up to 30 years.

Let me explain:

- **In this option the GOA owns the land and improvements immediately without any direct liability. That means that we have no commitment to pay any loan.**
- **In this option the GOA pays only if and when future revenues are payable. In other words if the project is not completed the GOA owes no one anything. In the other two options GOA has a liability to pay whether or not the project is completed.**

- **This option represents an economic risk free transaction for the GOA because the owner on the basis of a negotiated long term management agreement with GOA will assume all costs associated with the maintenance and operations of the facility.**
- **GOA can also create a further revenue stream by charging a per-round “recreation tax”.**
- **The allocation of revenue from accommodation tax of the hotel operations is not the only revenue associated with the project.**
- **We are cognizant of the fact that everything carries a price and any quoted price can be negotiated. It depends on the commitment of all parties concerned to come to a successful and mutually beneficial arrangement.**

On March 27th a letter of intent was sent to Flag by the Chief Minister indicating our willingness to negotiate the third option and a process of due diligence slated to take over a period of thirty days began. When this option of purchasing the Golf Course was floated one of the Members of the Opposition who was encouraged to use his self-proclaimed influence with Mr. Lee Rizzuto, the owner of Cuisinart Resort & Spa came back with the report that Mr. Rizzuto was prepared to buy the Golf Course. Discussions with Mr Rizzuto and his agents by the Chief Minister and myself clearly confirmed that this is not the case. In fact despite strict instructions from Mr. Rizzuto and his agents that

this was not so that member of the opposition continues to say on various media that Mr. Rizzuto intends to purchase the Golf Course.

I believe that to dispel this misinformation once and for all I should read a copy of a letter from the Senior Vice President & General Counsel of the Company to the Chief Minister on the matter. The letter was dated May 29th and reads as follows:

“It was a pleasure meeting with you this morning regarding the golf course issues. You asked me to confirm with Mr. Rizzuto if he has any intention of actually paying monies to purchase the golf course. This will confirm that the offer Mr. Rizzuto made to Mr. Sillerman never involved the payment of any monies by Mr. Rizzuto to purchase the golf course. The considerations which Mr. Rizzuto will undertake are limited to the assumption of the operating costs and maintenance of the golf course. In the event agreements can be worked out by all parties, I hope this sufficiently clarifies this point. Please let me know if you require anything further. Sincerely etc.”

Obviously, that member of the opposition either mistakenly or deliberately is spreading the wrong information. But even from a basic business standpoint for Mr. Rizzuto to decide to purchase such a high price facility and then operate it at a loss for several years would defy the very principles which made him the successful entrepreneur that he is. Mr. Rizzuto himself has said this.

I therefore want to disabuse all listeners of the idea that that there is any one out there who has a feasible plan to purchase the Golf Course as a separate entity. I repeat that only the GOA or the buyers of the other components of the project can realize any practical benefit in doing so.

But even in the face of overwhelming evidence that GOA could benefit from this transaction. Technical officers in the relevant ministries were charged with doing the necessary due diligence in researching the matter. GOA employed two qualified international firms at great expense to review the purchase and management agreements and do an evaluation of the asset. This exercise took some time and the period for due diligence having come to a close the principals of Flag opined that GOA was renegeing on its agreement and decided to suspend the maintenance of the Golf Course which they decided that at a cost of US\$200,000.00 a month without any resolution in sight would represent a waste of valuable resources.

Nevertheless, Government continued its due diligence and negotiations and on Thursday May 28, 2009 Executive Council instructed me to make a final offer based on a modification of option three. Rather than an incentive based on allocation of accommodation tax revenues for thirty years --- GOA offered ninety percent of the allocation for fifteen years and seventy-five percent for ten years. Added up this offer would amount to 21 years of one hundred percent allocation. We feel that this is a reasonable compromise for a valuable asset which GOA would acquire. In other words it is not a free concession but a transaction

which includes the transfer of an asset in exchange for future revenues. As I said earlier nothing comes without a price and we believe that this is a reasonable cost to pay for a fully operational resort with a top class golf course facility.

The point must be made that this is not an unusual government transaction. Governments use revenue in the form direct payments and loans to buy goods and services for its people including the purchase of roads; airports; seaports; schools; hospitals; playgrounds golf courses and so on, to develop its economy. This is the same thing. But in addition GOA is acquiring a facility without any contingent liability if it is not successful. In other words if it does not work out we owe no one anything. But let me explain what this agreement triggers in terms of the project. Bear in mind that immediately upon signing, this document goes into escrow until the other cogs of the arrangements fall in place.

As soon as GOA successfully negotiates the terms of the purchase and management agreements, the other components of the larger strategy to restart, complete and operate the project are triggered as follows:

- Flag Properties settles its liens with its lenders**
- A new developer/owner is brought in**
- The homebuyers arrangements are affirmed or mutually modified if required**

- **A new construction loan is arranged**
- **Agreement is reached with the Contractor for past due amounts and scope of new work**
- **Flag Properties must come to a mutually agreed settlement of outstanding monies owed to local creditors, vendors and contractors, including GOA.**

This last component as it relates to local creditors, vendors and contractors will be of major importance in the approval of the new owner/operators of the project. GOA remains committed to ensuring that Anguillians who are owed monies have been dealt with satisfactorily.

On the basis of the foregoing agreements which will shortly be approved in the Anguilla House of Assembly the principals of Flag have in good faith restarted the maintenance program for the Golf Course facility and have begun negotiating the other components of the deal. We feel that this represents significant progress and hope for a final resolution of the challenges of restarting this very vital project.

While I am on my feet I would also like to take this opportunity to report that the Viceroy Project is well on the way to a soft opening in July which will result in the employment of a number of Anguillian workers --- and the long awaited Medical School is scheduled to open in August/September and will create opportunities for the apartment

rental sector and other businesses. The fiscal situation is challenging but we are encouraged that with continued progress on all these fronts we will experience some relief from the pressures that now attend us.

Let me take this opportunity to thank you all for your kind attention and wish you all the best as you strive to manage the many challenges which are affecting all of us in this unique period of global financial and economic crisis.

Blessings