

PN-ABE-182

64563

**The Potential
Fiscal Impact From
Southeast Peninsula
Development 1989-1994**

DESFIL

Development Strategies for Fragile Lands
624 9th Street, N.W., 6th Floor, Washington, D.C. 20001

Development Alternatives, Inc.
Tropical Research and Development, Inc.

in association with:

Earth Satellite Corporation
Social Consultants International

**THE POTENTIAL FISCAL IMPACT FROM
SOUTHEAST PENINSULA DEVELOPMENT
1989-1994**

by

Robert D. Foster, Ph.D.

May 1989

Prepared for the U.S. Agency for International Development
under U.S.A.I.D. Contract # DHR 5438-C-00-6054-00

EXECUTIVE SUMMARY

There are a large number of private development projects planned for the Southeast Peninsula beginning as soon as the road is opened in mid-year 1989. It is clear that under this or any realistic development scenario for the Peninsula, government revenues generated from development will far exceed government expenditures associated with the development. These conclusions are based on discussions held with Government officials and private sector representatives from January 19, 1989 through January 28, 1989 and on subsequent analyses of relevant information.

The current taxes and rates of taxation, including the special stamp taxes and property taxes on property transactions in the Peninsula, will, without the need for any additional revenue measures such as special assessments, fees or similar charges, provide more than sufficient revenue to:

1. Service the loan for the construction of the road;
2. Service the two loans for the purchase and installation of the electrical cable along the roadway;
3. Finance extensions of the road to Sand Bank Bay and to Banana and Cockleshell Bays;
4. Finance the extension of utilities to these areas as well;
5. Finance necessary additions to the electrical system for the Peninsula;
6. Finance the associated current, ongoing costs of the operating departments;
7. Finance the associated capital costs of the operating departments;
8. Generate a surplus of revenue over combined current and capital expenditures.

There may be social or equity reasons for the levying of new taxes, fees, service charges or similar measures. As an example, utility hook-up charges might be imposed to ensure private facilities meet environmental regulations. But there is not a revenue need for new revenue measures.

If all the private development plans now under consideration are developed, approved, finalized and implemented as currently planned, and if the tax authorities assess and collect the revenues due the Government, there would be a \$96.7 million surplus of revenues over expenditures during the six-year period 1989-1994. The results of these calculations are shown in Table 1. Even if the revenue projections are overly optimistic by a substantial amount and revenues were only half those projected, the surplus of revenues would still be about \$30.0 million more than projected expenditures. And under conservative assumptions, the revenue surplus will increase during future years.

The optimism expressed so far is well founded. However, it is possible that not all the projects now under consideration will be undertaken as currently planned or during the

6

planned time frame of the next six years. But there does not appear to be any plausible developmental scenario in which there will be absolutely no development; at least one 250-room hotel will be built during the six years. As shown in Table 2, even with a slow growth scenario of only one 250-room hotel complex, revenues will be greater than expenditures by more than \$11.3 million by the end of 1994. If the revenue generated under this scenario is only about two-thirds of that estimated, there will be enough revenue to meet all estimated expenditures.

Even if there is no development at all after the road is opened --- a scenario that is considered not at all probable --- property taxes on the land, and stamp taxes on transactions that are now completed or will be by the end of 1989, will generate enough revenues, almost \$8.0 million, to service the road loan and the two loans for the electric cable and its installation. Obviously, if there is no development, only additional expenditures for road maintenance will be required of Government during this period.

There are three potential expenditures by Government that are not considered in this analysis:

1. In discussions with officials and others during mid-January, it was reported that concessionary funding for the upgrading of airport facilities to accommodate increased tourist traffic was already under active consideration by Government. Also under consideration was improving the condition of the road from Basseterre through Frigate Bay leading to the Peninsula. Since Government was already involved in these areas, they are not included here.
2. The management plan entitled "A Proposed Land Use Management Plan for the Southeast Peninsula" had not been adopted as of the mid-January site visit and consequently it was not possible to know which lands would be designated as non-developmental, as parks or as public lands. Consequently, it was not possible to know how or if Government intended to compensate current owners or if owners were willing to donate land for these purposes as they had for the Peninsula Road right-of-way and scenic overlooks.
3. Although the draft land use management plan called for centralized liquid waste treatment facilities, discussions indicated that Government was actively considering as an alternative the installation of package treatment plants by private developers at their own expense. Since no official decision had been reached at the time of writing of this report, liquid (and solid waste) disposal is not included in this analysis.

This paper does not address administrative or organizational issues. For instance, there are very important management decisions for Government to resolve. If there is rapid development in the Peninsula as is likely, Government will need to ensure that the revenue collecting agencies are fully staffed, trained and equipped well in advance in order to collect the expected large amount of revenue and to process the large number of taxpayers.

TABLE 1
SUMMARY OF ADDITIONAL REVENUES
AND EXPENDITURES - SEP PENINSULA
1989 - 1994

REVENUES	1989	1990	1991	1992	1993	1994	TOTAL
TOTAL TAX REVENUE	6,243,960	7,333,028	12,671,414	34,695,448	33,808,649	38,948,066	133,700,565

CURRENT EXPENDITURES	1,666,000	2,605,360	3,411,854	3,442,086	3,659,932	2,880,635	17,665,867
CAPITAL EXPENDITURES	3,595,000	4,139,120	3,581,790	2,941,000	2,541,000	2,557,400	19,355,310
TOTAL EXPENDITURES	5,261,000	6,744,480	6,993,644	6,383,086	6,200,932	5,438,035	37,021,177

REVENUES MINUS EXPENDITURES	982,960	588,548	5,677,770	28,312,362	27,607,717	33,510,031	96,679,388
-----------------------------	---------	---------	-----------	------------	------------	------------	------------

2

TABLE 2
SUMMARY OF ADDITIONAL REVENUES
AND EXPENDITURES - SEP PENINSULA
1989 - 1994
SLOW GROWTH SCENARIO

REVENUES	1989	1990	1991	1992	1993	1994	TOTAL
TOTAL TAX REVENUE	6,023,700	2,442,148	5,766,218	6,011,469	6,251,927	6,502,004	32,997,466

CURRENT EXPENDITURES	1,661,000	2,167,360	2,258,974	2,271,253	2,329,624	1,226,905	11,915,116
CAPITAL EXPENDITURES	1,195,000	1,694,000	1,787,240	1,694,000	1,694,000	1,710,400	9,774,640
TOTAL EXPENDITURES	2,856,000	3,861,360	4,046,214	3,965,253	4,023,624	2,937,305	21,689,756

REVENUES MINUS EXPENDITURES	3,167,700	(1,419,212)	1,720,004	2,046,216	2,228,303	3,564,699	11,307,710
-----------------------------	-----------	-------------	-----------	-----------	-----------	-----------	------------

6

Although discussions during the January field trip were held with both Inland Revenue and Customs personnel in order to estimate their future current and capital expenditure requirements, data analysis had not been completed and the magnitude of the tax collection effort was not clear at that time. Inland Revenue personnel indicated that no new expenditures would be required to collect additional revenue that would be generated from Peninsula development, while Customs projected only a small addition to expenditures. It is clear now that expenditures beyond those shown in this analysis will be required. For instance, 1993 projections of additional revenue will be about fifty percent more than the total that was collected in 1987. Such an increase will require more personnel and equipment for the tax collecting agencies than they had initially suggested. Additional discussions should be held with these two important departments, using the estimates in this report as a basis for determining their future personnel and equipment requirements.

This paper should be considered as the basic framework for a fiscal monitoring system. The revenue and expenditure estimates should be viewed as estimates, and they should be revised and updated as new information becomes available, as new development plans are approved and as development actually takes place. The Government has the opportunity to reap substantial revenue benefits from development in the Southeast Peninsula; but these benefits - and the government expenditures associated with them - can best be realized if there is regular analysis and reporting as development takes place.

There should be a coordinating fiscal person or persons whose responsibility it is to monitor development on a regular basis and to report to the responsible authorities the fiscal impact of each new private sector development such as construction and operation of hotels, condos, marinas, private residences and other activities which will generate both revenues for and expenditures by Government. A monitoring system need not be complicated or complex, nor does it necessarily involve more than a few persons. But such a system needs to be set up and kept current. With timely information on the fiscal impact of Peninsula development, Government would be in a better position to make informed policy decisions.

Throughout the tables contained in this report, it is assumed that personnel costs will remain constant until 1993 when across the board increases of twenty percent will be given by Government, which is the pattern of wage increases of the past several years. Other current and capital expenditures, as well as the revenue bases - and revenues - are assumed to increase at an annual rate of four percent.

The data in the tables indicate a precision that should be understood as the order of the magnitudes involved rather than precise estimates. It was necessary to make the estimates down to the last "dollar" rather than round the estimates to, say the nearest one hundred thousand dollars. Since some of the estimated expenditures and revenues are relatively small, rounding would have resulted in these expenditures not being included in the tables since some of the amounts would have been less than, for instance, \$100,000.

TABLE OF CONTENTS

1.0	<u>ESTIMATED EXPENDITURES</u>	1
1.1	<u>Current Expenditures: Current Development Plans</u>	1
1.2	<u>Capital Expenditures: Current Development Plans</u>	3
1.2.1	Electricity	4
1.2.2	Water Services	5
1.2.3	Police Services	5
1.2.4	Fire Services	9
1.2.5	Coast Guard	9
1.2.6	Customs	12
1.2.7	Public Works	12
1.2.8	SEP Board	15
2.0	<u>ESTIMATED REVENUES</u>	17
2.1	<u>Current Revenues: Current Development Plans</u>	17
<u>APPENDIX 1</u>		24

1.0 ESTIMATED EXPENDITURES

1.1 Current Expenditures: Current Development Plans

This section details the expenditures that should be anticipated as development occurs on the Peninsula. There will be both current and capital expenditures. Tables 3 and 4 are estimates of these expenditures under the assumption that the confidential development plans expressed to the author actually take place. After a brief analysis of the expenditures in these Tables, a more detailed analysis will be presented for each of the major government departments that will be most directly involved in providing services to the Peninsula.

Table 3 includes those current expenditures already committed to by Government and those that are likely to be required over the six-year period 1989-1994.

The first expenditure item in this Table is servicing the U.S.A.I.D. Road Loan. The terms of this loan require Government to pay two percent interest per annum on the value of the loan, about U.S. \$11.0 million, for the first five years, and three percent per annum for the next five years. Principal payments scheduled over a 15-year period, and interest at five percent per annum, do not begin until ten years after the first interest payment. Accordingly, for the time period under analysis, only interest payments are shown through 1994. As shown in Table 5, payments increase in 1994 because interest on the loan rises to three percent per annum.

The loan from the National Bank, which financed the electric cable for the first six kilometers of the road, is shown as the second entry in this Table, National Bank - Electricity Cable. As of the time of the field work for this study, the final details of the loan between the Government and the National Bank had not been formalized. It is shown here as a five-year loan at eight percent per annum, as suggested by officials during discussions. Different repayment terms than those shown here will require revisions in the data shown here. The additional electric cable to complete cable service to the rest of the Peninsula is shown in Table 4 as part of additional capital expenditures.

The third entry, National Bank - Utilities - is for the letter of credit for approximately U.S. \$1.5 million to pay Redondo Construction to install the six kilometers of cable. It was not clear during the field interviews as to how this interim financing was to be converted to a permanent loan. It is assumed in this Table that the loan will be converted to a five-year loan at eight percent per annum. If a different repayment schedule is negotiated, the values shown here will need to be revised accordingly.

The remaining entries in Table 3 are derived from the more detailed Tables of the Government departments, a discussion of which will follow shortly. The overall current expenditures for the six-year period amount to nearly \$17.7 million. Of this amount, nearly fifty-two percent, or \$9.2 million, are expenditures to service the three existing loans, and are expenditures that Government cannot easily postpone. The balance of the

TABLE 3
ESTIMATED ANNUAL EXPENDITURES
1989 - 1994
CURRENT EXPENDITURES

CURRENT EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
USAID ROAD LOAN	300,000	608,000	608,000	608,000	608,000	912,000	3,644,000
NATIONAL BANK - ELEC. CABLE	366,000	366,000	366,000	366,000	366,000		1,830,000
NATIONAL BANK - UTILITIES	750,000	750,000	750,000	750,000	750,000		3,750,000
ELECTRICITY SERVICES		104,000	432,640	449,943	467,943	486,661	1,941,187
WATER SERVICES	83,000	84,400	85,856	87,370	98,545	100,183	539,554
POLICE SERVICES		111,000	223,200	224,448	264,146	265,496	1,088,290
FIRE SERVICES		185,000	372,000	374,080	440,243	442,493	1,813,816
COAST GUARD SERVICES	5,000	142,000	143,200	144,448	168,146	169,496	772,290
CUSTOMS AND EXCISE			90,000	90,400	106,816	107,249	394,465
PUBLIC WORKS	100,000	130,000	215,000	220,400	242,016	247,857	1,155,273
SEP BOARD	62,000	124,960	125,958	126,997	148,077	149,200	737,192
TOTAL CURRENT	1,666,000	2,605,360	3,411,854	3,442,086	3,659,932	2,880,635	17,665,867

current expenditures, about \$8.4 million, are a function of the rate and the level of Peninsula development and can be rescheduled if development occurs differently than that assumed here.

The possible exception to rescheduling would be the last entry in Table 3, current expenditures for the Southeast Peninsula Land Development and Conservation Board. Act Number 12, 1986, which established the Board implies that it is permanent. If so, funding will be needed to allow the Board to carry out its duties and obligations. The expenditure amounts shown in this Table for the Board, as indicated during field discussions, are considered to be minimum amounts; it may be necessary to increase funding for the Board.

1.2 Capital Expenditures: Current Development Plans

Table 4 shows the capital expenditures that are anticipated under the assumption that current plans by private developers take place during the six-year period. There are other assumptions underlying the first three entries, to be discussed shortly, which may need to be modified.

The first two entries are capital expenditures to extend the road to the major potential development areas of Sand Bank Bay and along Banana Bay and through to Cockleshell Bay (the latter is shown in abbreviated form as Cockleshell Road). It is assumed that Government will bear the full cost of these extensions; if different arrangements are made, such as cost-sharing with property owners along these routes, then the data in these entries will need to be modified. From estimates obtained from personnel on-site at the Road, road extensions would cost between \$600,000 to \$800,000 per kilometer. Virtually all of the terrain is fairly level and building of the roads would be much easier than it was for the early sections of the main road. It should be noted that these estimates are predicated on the current contractor undertaking the extensions. If the branch roads are built at a later date after the current contractor departs, other equipment will need to be brought in, perhaps at additional expense, and the cost may be greater than estimated here.

The third entry entitled Additional Utilities covers the extension of the present six kilometers of electric cable to Sand Bank Bay, Majors Bay, Banana Bay and Cockleshell Bay. Included in the costs are estimates for the extension of water to these areas. The cost of installation would be about \$250,000 per kilometer, which would cover both water and electricity. Since the terrain is level, installation would be relatively simple and could be accomplished with a large backhoe. Presently, there is not a backhoe on the Island large enough to undertake this work.

Material for the water line would cost about \$150,000 per kilometer; the electric cable would be about \$350,000 per kilometer including joints and boxes.

The largest capital expenditure would be for the provision of electricity to the Peninsula. Part of the expenditure, to be discussed later in the Electricity section of this report, would be a joint program to upgrade the electricity service of the entire Island.

The last entry, Public Building, is based on the estimated cost of a building large enough to house under one roof all the public service departments and agencies, such as police, fire, coast guard, revenue agencies and administrative offices. It is assumed that not all the departments will need to be located in the new building at the same time; consequently, the building is presumed to be built in three "stages" corresponding to the three years as shown in the Table. The cost of \$1.0 million was derived from discussions with officials on the cost of a government building recently completed in St. Kitts. Land costs are not included in this estimate; some discussions indicated that under the appropriate conditions, private land owners would be willing to donate land for public purposes. Since Government has not developed an official policy yet, land costs are excluded.

The remaining departmental expenditures will be discussed in the following sections.

1.2.1 Electricity

Table 5 gives estimates of expected current and capital expenditures for the six-year period. The estimates for current charges are operating expenses for the expected requirements of the two new generating systems shown in the capital portion of this Table. The generating systems for the Peninsula are identified as the second and third 4.4 MW sets to distinguish these sets from the first set which will be installed in 1989 to service mainland St. Kitts rather than the Peninsula.

The capital part of Table 5 shows the expected installation years for the two generating systems in anticipation of the demand for electrical services on the Peninsula. The annual values reflect the current terms offered the Electricity Department by the supplier for the first system; it is presumed that there will be similar terms for the second and third sets.

The largest expenditure is estimated to be, in 1989 dollars, \$9,450,000, which is the major share of the Department's estimate of \$12.0 million for new equipment such as cables and other gear to upgrade the electrical system so that the system can meet the expected needs of the Island. In this Table, it is assumed that Government may finance on a longer term this capital expenditure. Consequently, a sum of \$1.0 million is allocated each year to cover the expected financing. As plans firm, and as development actually takes place in the Peninsula which will require electricity services, the data in this Table will need to be revised.

1.2.2 Water Services

The expected current and capital expenditures for water services are shown in Table 6. As is well known, Canadian International Development Agency (CIDA) provided all 10 kilometers of 10" pipe; the pipe will be laid by Redondo all the way to Majors Bay. Table 4, discussed previously, contains the additional costs to provide water service to the prime development areas of Sand Bank, Banana and Cockleshell Bays.

Needed as soon as possible are the reservoirs on Sir Timothy's Hill and Salt Pond Hill. At present, the head pressure generated from Morne reservoir is not adequate to provide water service beyond Friar's Bay. It is expected that Government will move quickly to secure what is referred to as Phase II of the CIDA grant which, it is reported, will provide the two reservoirs including labor and materials. The total cost for the reservoirs and their installation is estimated to be about \$3.6 million. Additionally, the grant will probably include the two pumps for the existing wells which will supply the water to the system, each costing \$80,000 installed. Since CIDA is to provide on a grant basis all of these capital expenditures, they are not included here.

On the assumptions that the pipe is laid correctly and that the reservoirs are properly constructed, there is not likely to be any major maintenance expenses. For all practical purposes, there will be only minor ongoing current expenses. For instance, \$5,000 is probably the minimum annual electricity cost for each of the two electrical pumps mentioned above. There will be annual maintenance of \$9,000 for the pumps and replacement of the stators in about 1994.

The water system will require an overseer and two laborers to keep all waterways open and clean and to ensure general maintenance. In addition, the water department will need as soon as possible a four-wheel drive vehicle in order to patrol the water system, reach critical areas and to maintain water supplies to the Peninsula. This cost, estimated at \$45,000, is shown to occur in year 1989.

1.2.3 Police Services

Discussions with Police Department personnel showed that through mid-1990, most police services for the Peninsula could be met with existing personnel and equipment patrolling from current stations. As expected activity increases, 12 new personnel would need to be added by 1991, if not sooner. The personnel would need to be stationed in new facilities in the Peninsula when two hotel complexes were at or near full operation. It may be necessary to have a substation both at Friar's Bay and in the Salt Pond Area.

Personnel costs and other charges for the Police Department are shown as current expenditures in Table 7. Capital expenditures are in the lower part of the Table. The items needed by the Department are clearly identified in the Table. It should be noted that personnel and other charges are substantially greater, by a factor of ten to one, to capital charges. Nonetheless, the capital expenditures are essential for providing the police services.

TABLE 4
ESTIMATED ANNUAL EXPENDITURES
1989 - 1994
CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
SAND BANK ROAD		350,000					350,000
COCKLESHELL ROAD	400,000	500,000					900,000
ADDITIONAL UTILITIES	2,000,000	400,000					2,400,000
ELECTRICITY SERVICES	1,000,000	1,694,000	2,541,000	2,541,000	2,541,000	2,541,000	12,858,000
WATER SERVICES	45,000					16,400	61,400
POLICE SERVICES		52,830	50,670				103,500
FIRE SERVICES		535,940	535,940				1,071,880
COAST GUARD SERVICES		306,350					306,350
CUSTOMS AND EXCISE			60,940				60,940
PUBLIC WORKS	150,000		93,240				243,240
PUBLIC BUILDING		300,000	300,000	400,000			1,000,000
TOTAL CAPITAL	3,595,000	4,139,120	3,581,790	2,941,000	2,541,000	2,557,400	19,355,310

TABLE 5
ELECTRICITY - ESTIMATED EXPENDITURES
1989 - 1994
CURRENT AND CAPITAL EXPENDITURES

CURRENT EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
OTHER CHARGES 2ND 4.4 MW SET		104,000	216,320	224,973	233,972	243,331	1,022,595
OTHER CHARGES 3RD 4.4 MW SET			216,320	224,973	233,972	243,331	918,595
TOTAL CURRENT		104,000	432,640	449,946	467,943	486,661	1,941,190

CAPITAL EXPENDITURES							
CABLES, GEAR FOR SUBSTATION	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	6,000,000
2ND 4.4 MW SET		694,000	694,000	694,000	694,000	694,000	3,470,000
3RD 4.4 MW SET			847,000	847,000	847,000	847,000	3,388,000
TOTAL CAPITAL	1,000,000	1,694,000	2,541,000	2,541,000	2,541,000	2,541,000	12,858,000

TABLE 6
WATER - ESTIMATED EXPENDITURES
1989 - 1994
CURRENT AND CAPITAL EXPENDITURES

CURRENT EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
PERSONNEL (3)	48,000	48,000	48,000	48,000	57,600	57,600	307,200
OTHER CHARGES	35,000	36,400	37,856	39,370	40,945	42,583	232,154
TOTAL CURRENT	83,000	84,400	85,856	87,370	98,545	100,183	539,354

CAPITAL EXPENDITURES							
VEHICLE (1)	45,000						45,000
REPAIR OF MOTORS						16,400	16,400
TOTAL CAPITAL	45,000					16,400	61,400

1.2.4 Fire Services

Like Police services, it is expected that fire services in the initial stages of Peninsula development can be supplied with existing personnel and equipment. However, once the first hotel is in operation, new equipment and additional personnel will be required.

When the second hotel complex is underway, further equipment and personnel will be required. The years of mid-1990 and 1991 reflect these anticipated requirements. Discussions have indicated that a substation would be needed in the Salt Pond area and perhaps one in Friar's Bay if that location could not be adequately serviced with new equipment stationed in Frigate Bay. Two new fire trucks and tenders and other capital needs, as shown in the lower half of Table 8, reflect the equipment needs. In the case of fire services, capital expenditures are much higher than capital expenditures for police services.

1.2.5 Coast Guard

Coast Guard services will be needed for the Peninsula shortly before the completion of the first major hotel complex, estimated in 1990, as shown in Table 9. As the tourist and visiting yacht populations increase, the Coast Guard will be required to provide support, law enforcement and sea and air rescue, among other services which support Government regulatory requirements.

In order to meet the Coast Guard service requirements, a new vessel will have to be purchased soon so that it can be in service in the early years of Peninsula development. Discussions indicated that a thirty-foot boat of the Fairey Marine Spear class, costing about \$300,000 fully equipped, will be required. A radio for the vessel and hand-held radios for the crew's use when boarding other vessels will also be needed. It is assumed that the base radio, shown in Table 7 for Police Services, will also service Coast Guard (and Fire Services) needs.

Seven additional personnel will be needed to properly operate the vessel and for subsidiary Coast Guard requirements. Operating costs for the vessel, and other charges, are estimated to be \$30,000 the first year and increasing by about four percent per annum thereafter. If the vessel is purchased and put into operation in 1990 as shown in Table 9, an immediate effort will be needed to recruit and train personnel. The small expenditure of \$5,000 for other charges shown for 1989 assumes that current personnel and equipment will serve the Peninsula during 1989.

It was suggested that the new vessel's primary station be on the Atlantic side of the Peninsula, perhaps in the Sand Bank Bay area. In addition to meeting its primary responsibilities of patrolling the Peninsula, this stationing would provide a secondary but needed quick response to any air emergencies from Golden Rock Airport. With expected increased tourist travel, such a suggestion warrants consideration.

TABLE 7
POLICE SERVICES - ESTIMATED EXPENDITURES
1989 - 1994
CURRENT AND CAPITAL EXPENDITURES

CURRENT EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
PERSONNEL (12)		96,000	192,000	192,000	230,400	230,400	940,800
OTHER CHARGES		15,000	31,200	32,448	33,746	35,096	147,490
TOTAL CURRENT		111,000	223,200	224,448	264,146	265,496	1,088,290

CAPITAL EXPENDITURES							
MOTORBIKES (2)		15,000	15,000				30,000
MOTORBIKE RADIOS (2)		1,080	1,080				2,160
VEHICLES (2)		30,000	30,000				60,000
VEHICLE RADIOS (2)		1,080	1,080				2,160
BASE RADIOS (2)		2,160	2,160				4,320
BASE RADIO STANDBY		2,160					2,160
HANDSET RADIOS (4)		1,350	1,350				2,700
TOTAL CAPITAL		52,830	50,670				103,500

TABLE 8
 FIRE SERVICES - ESTIMATED EXPENDITURES
 1989 - 1994
 CURRENT AND CAPITAL EXPENDITURES

CURRENT EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
PERSONNEL (20)		160,000	320,000	320,000	384,000	384,000	1,568,000
OTHER CHARGES		25,000	52,000	54,080	56,243	58,493	245,816
TOTAL CURRENT		185,000	372,000	374,080	440,243	442,493	1,813,816

CAPITAL EXPENDITURES							
BEDFORD TRUCK (2)		400,000	400,000				800,000
TENDER (2)		100,000	100,000				200,000
VEHICLE (1)		30,000	30,000				60,000
VEHICLE RADIOS (6)		3,240	3,240				6,480
HANDSET RADIOS (4)		2,700	2,700				5,400
TOTAL CAPITAL		535,940	535,940				1,071,880

The Coast Guard will need, at various times, slips at the main development areas in order to secure their vessel when personnel are making investigations or performing other services. It would be useful if Government could persuade private developers to provide a slip at either no charge or a nominal charge for the Coast Guard vessel. The expenditures in Table 9 do not provide for either the building or rental of slips. If Government were to provide its own slips, the capital expenditures and annual maintenance costs will need to be added to Table 9.

1.2.6 Customs

Estimated Customs expenditures are shown in Table 10. Discussions with Customs personnel indicated that only a limited number of personnel would be needed on the Peninsula. For example, Rodney Bay in St. Lucia and Nelson Dockyards in Antigua had only one to two customs personnel. It should be noted that in the Revenue section which follows, a large portion of revenues expected from Peninsula development will come from Customs collections; however, most of the collection effort will be located in the main Customs office in Basseterre and very little will be located directly from the Peninsula.

One senior officer, two junior officers and two guards will probably be sufficient for Customs services on the Peninsula. The personnel will not be needed until the first marina is completed and in operation; this is projected to be in 1991. In addition, a four wheel drive vehicle will be required, along with radios and a computer to record all the necessary data and information. Other charges include vehicle support, documentation and other charges. It should be noted that when the suggested all purpose Public Building, shown in Table 4, is constructed, a facility for plant and animal quarantine and a lock-up facility be constructed as part of that Building.

As noted in the Executive Summary, it was not possible during the field trip to estimate the additional personnel - and equipment - that Customs, and Inland Revenue, in Basseterre will need as Peninsula development takes place. Assuming that the Revenue estimates discussed later are reasonably accurate, a careful review needs to be made with Customs authorities to determine the additional expenses that will be required. These expenses will need to be added to Table 10.

1.2.7 Public Works

The estimates for Public Works, which is exclusively maintenance of the new Peninsula road, are shown in Table 11. Discussions with personnel working on the road and with Government personnel emphasized that the new road is not maintenance free, not even in the first years. It was emphasized that Government would need to make annual maintenance expenditures beginning in 1989 as soon as the road was completed in order to keep the road open and in operating condition.

TABLE 9
 COAST GUARD - ESTIMATED EXPENDITURES
 1989 - 1994
 CURRENT AND CAPITAL EXPENDITURES

CURRENT EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
PERSONNEL (7)		112,000	112,000	112,000	134,400	124,400	604,800
OTHER CHARGES	5,000	30,000	31,200	32,448	33,746	35,096	167,490
TOTAL CURRENT	5,000	142,000	143,200	144,448	168,146	169,496	772,290

CAPITAL EXPENDITURES							
VESSEL		300,000					300,000
VESSEL RADIO		5,000					5,000
HANDSET RADIOS (2)		1,350					1,350
TOTAL CAPITAL		306,350					306,350

TABLE 10
 CUSTOMS - ESTIMATED EXPENDITURES
 1989 - 1994
 CURRENT AND CAPITAL EXPENDITURES

CURRENT EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
PERSONNEL (5)			80,000	80,000	96,000	96,000	352,000
OTHER CHARGES			10,000	10,400	10,816	11,249	42,465
TOTAL CURRENT			90,000	90,400	106,816	107,249	394,465

CAPITAL EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
VEHICLE (1)			45,000				45,000
MOBILE RADIO (1)			1,080				1,080
BASE RADIO			2,160				2,160
HANDSET RADIOS (4)			2,700				2,700
COMPUTER			10,000				10,000
TOTAL CAPITAL			60,940				60,940

An expenditure of \$150,000 is needed immediately to install "cats-eyes" and centerline markers; these capital improvements are essential to properly mark the road for vehicle traffic. Without these markers, the road is likely to be hazardous to drivers.

The first two years of annual maintenance can be accomplished with equipment from Basseterre. Beginning in 1991, however, a new vehicle will be required for Peninsula road maintenance along with appropriate radio equipment. Five maintenance personnel will be needed for the road for clearing rock falls and debris, patching, cleaning and ditch maintenance. Other charges expenditures include materials for these purposes.

The first overlay - resurfacing - of the road is expected in seven to ten years, which is beyond the time period covered in this analysis. The overlay will cost between \$70,000 and \$80,000 per kilometer. The overlay may be required sooner if Government does not regulate the size of truck traffic on the road. The road is built for single axle weight of 18,000 pounds. If heavy construction equipment and trucks heavier than the road is constructed to handle are allowed on the road, the overlay could be required in four to five years. Heavy equipment can quickly reduce the Peninsula road to an unappealing transit route for tourists. Government will need to carefully monitor the road condition, and if necessary plan for overlay expenses earlier than assumed in this analysis.

As noted in the executive summary portion of this report, expenditures for resurfacing the road from Basseterre through Frigate Bay to the beginning of the Peninsula road are not included here. It was suggested that a new road might be built from Golden Rock Airport to the intersection of Birdrock road; even so, the road through Frigate Bay will also need to be resurfaced.

1.2.8 SEP Board

U.S.A.I.D. funding for the Southeast Peninsula Land Development and Conservation Board ends in mid-1989. Table 12 gives estimates of expenditures that Government will need to make to keep the Board operating at its current level of activity, including Board staff and support personnel. In discussions with officials, it was not clear if the Board would continue in its current form. If the functions, duties and obligations of the Board are to be changed, then the estimated expenditures in this Table will need to be modified accordingly.

TABLE 11
PUBLIC WORKS - ESTIMATED EXPENDITURES
1989 - 1994
CURRENT AND CAPITAL EXPENDITURES

CURRENT EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
PERSONNEL (5)	80,000	80,000	80,000	80,000	96,000	96,000	512,000
OTHER CHARGES	20,000	50,000	135,000	140,400	146,016	151,857	643,273
TOTAL CURRENT	100,000	130,000	215,000	220,400	242,016	247,857	1,155,273

CAPITAL EXPENDITURES							
TRUCK (1)			90,000				90,000
BASE RADIO (1)			2,160				2,160
TRUCK RADIO (1)			1,080				1,080
ROAD MARKING	150,000						150,000
TOTAL CAPITAL	150,000		93,240				243,240

2.0 ESTIMATED REVENUES

2.1 Current Revenues: Current Development Plans

Table 13 shows revenue estimates under the assumption that expected plans by private developers will actually take place during the six-year period under study. As with any projections, these estimates will vary if the underlying assumptions are changed. Consequently, the estimates contained in this Table will need to be modified as development gets underway in the Peninsula. As was noted in the Executive Summary, it is very important that Government monitor and update on a regular basis both expenditures and revenues. It is particularly important for revenues since some of the assumptions underlying the estimates, to be discussed below, may also need to be modified. As should be recognized, it is much easier to estimate expenditures than revenues since personnel and other costs can be more accurately estimated.

The first revenue item in Table 13 is the Stamp Tax. In confidential discussions with private developers, relatively large property transactions will occur in 1989, although some of these transactions may not be completed until 1990. In any event, the combined value of these expected transactions will result in about \$4.0 million in stamp duty tax revenue, most of which will be realized by Government in 1989. For the remaining years, 1990-1994, a rough estimate of about \$250,000 per year, implying property sales of \$1.7 million per annum, will be collected. It is obvious that property sales cannot be predicted for a new area like the Peninsula which does not have a historical record of such sales. The estimates shown here may be either over or underestimated. Some of the discussions did reveal, however, that property buyers intended to sub-divide their purchases and re-sell to others. When, and how much of this will occur, is a matter of conjecture and cannot be accurately estimated. Nonetheless, Government should realize at least \$5.3 million in stamp taxes during the six-year period.

Property taxes should contribute a minimum of \$12.2 million during the period. The 1986 Law Reform Act specifies that "On all land or land improvements thereon situated in any Special Development Area a tax per annum at the rate of one-half (1/2) of one per cent of the assessed market value." The Southeast Peninsula is a Special Development Area and all land and improvements, meaning buildings, which are considered to be real property, are subject to the tax. The tax does not apply to furniture, fixtures and equipment; these are considered personal property.

The estimates for property tax revenues are based on very conservative land values and only for those areas which have been designated prime development areas. None of the land which has limited or restricted development purposes as shown in the yet-to-be-approved Land Use Management Plan have been included. If some of these areas are allowed to be developed on a limited commercial basis, then property taxes on land and buildings will be higher than estimated here.

Property taxes on buildings, as everywhere in the world, make up the largest share of estimated total property taxes. The estimates of property tax revenues from buildings were based on information from the Caribbean Tourism Research Council. Currently,

average construction costs in the Caribbean per room for an upscale hotel are \$270,000; a 250-room hotel would cost around \$65.0 to \$70.0 million. These costs include swimming pools, tennis courts and other amenities, but do not include furniture, fixtures and equipment.

Completion dates were estimated for the major development programs and appropriate completion values were developed. The property tax rate of 1/2 of one percent of market value - in this case, construction costs - was taken of each development project, and revised upward on a yearly basis by the four percent growth factor discussed earlier in the Executive Summary. Finally, land taxes and building taxes were summed which then provided the estimates of revenues from the property tax.

A similar approach was taken for condominiums, information for which was provided on a confidential basis. Undoubtedly, there will be condominium development beyond that estimated here, but information was not available to make further estimates.

It should be expected that construction of private residences will take place during this six-year period which will yield property taxes. There are already parcels which have been sub-divided for private residences, such as in Banana Bay. There probably will be other private residences built during this period, but information is not available to even make a guess of property taxes from this source.

Tax revenues are expected to be large for both import duties and consumption taxes, the later including other charges and levies by the Customs and Excise department. The historical proportion of the total collected from these two sources is about 51% from import duties and 49% from the consumption tax.

It is important to note that it is assumed here that there will not be any import duties or consumption taxes levied on imports of construction and other items by the hotels since such imports are exempt under the Hotel Aids Act. In addition, any hotel resort complex that contains 250 rooms minimum will be exempt from import and consumption levies on its imports of food and beverages. It is assumed that all the developments will have at least 250 rooms in order to enjoy this exemption.

The revenues from import duties and consumption taxes as estimated here are entirely from secondary - or in economic terms, multiplier - expenditures by the general population, which in turn is a direct result of increases in the Gross Domestic Product, GDP, of St. Kitts. The increase in GDP is a result of construction and tourism expenditures generated by Peninsula development.

Because of wages and other expenditures paid to Kittitians as a result of the construction and operation of hotel resorts and condos, and because of tourism expenditures, the multiplier will generate large increases in GDP. As a consequence, the increased GDP will be spent for both locally produced goods and services as well as imported goods by Kittitians. This spending will generate import duties, consumption taxes and other taxes, the latter category shown as the next to the last row in Table 13. Other taxes include

TABLE 12
 SEP BOARD - ESTIMATED EXPENDITURES
 1989 - 1994

CURRENT EXPENDITURES	1989	1990	1991	1992	1993	1994	TOTAL
PERSONNEL (4)	50,000	100,000	100,000	100,000	120,000	120,000	590,000
OTHER CHARGES	12,000	24,960	25,958	26,997	28,077	29,200	147,191
TOTAL	62,000	124,960	125,958	126,997	148,077	149,200	737,191

the corporate income tax, the departure tax and the remaining taxes levied by the Government.

The following is a brief summary of the methodology and assumptions which underlie the revenue estimates. The construction of a 250-room hotel resort complex will generate through indirect or multiplier effects about \$2.8 to \$3.0 million in tax revenue from import duties, consumption taxes and other taxes. A ten-unit condo will generate about \$210,00 to \$250,000 in tax revenues.

Tourist expenditures are estimated, based on information from the Caribbean Tourism Research Council, to be around \$350 per day, and occupancy rates are assumed to be fifty percent. In addition to generating first and second round expenditures which will result in tax revenues, it is assumed that fifty percent of tourist expenditures will be subject to the current seven percent hotel tax. The revenue estimates for this tax are also shown in Table 13. It should be expected that occupancy rates will increase during the six years as resort developers increase their advertising programs. However, a more conservative fifty percent rate was assumed for the entire period.

Table 14 provides a more detailed breakdown of estimated revenues by type, by hotels and by condominiums, which are expected to be generated from expenditures by tourists.

If all the private development plans are completed and occupancy rates as previously assumed are met, the tax revenue potential for the Government is very large, particularly in relation to estimated expenditures. Even if the multiplier and other assumptions underlying the calculations are overly optimistic by half, the revenues will still be large.

Table 15 shows similar information for estimated revenues as a result of construction of hotels and condominiums on the Peninsula. Again, if the estimates are overly optimistic by half, the revenues are still quite large.

A more detailed explanation of the multiplier and first and second round expenditures is contained in the report Potential for Recovery of Public Investments and Costs: Southeast Peninsula, St. Kitts, May 28, 1986, Robert R. Nathan Associates, Inc.

TABLE 13
 ADDITIONAL REVENUES
 1989 - 1994

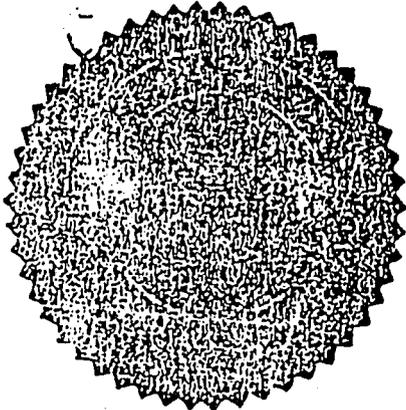
REVENUES	1989	1990	1991	1992	1993	1994	TOTAL
STAMP TAX	4,000,000	250,000	250,000	250,000	250,000	250,000	5,250,000
PROPERTY TAX	570,000	936,250	1,556,360	2,677,230	3,102,634	3,330,027	12,172,501
IMPORT DUTIES	371,500	1,375,060	2,359,909	6,659,270	6,389,452	7,609,570	24,764,761
CONSUMPTION TAX	357,190	1,321,377	2,273,581	6,430,643	6,172,707	7,346,107	23,901,605
HOTEL TAX	46,660	48,526	1,118,313	5,815,255	6,047,865	6,289,780	19,366,404
OTHER TAXES	898,610	3,401,815	5,113,246	12,863,050	11,845,991	14,122,582	48,245,294
TOTAL TAX REVENUE	6,243,960	7,333,028	12,671,414	34,695,448	33,808,649	38,948,066	133,700,565

TABLE 14
REVENUES FROM TOURISM
1989 - 1994

TAXES		1989	1990	1991	1992	1993	1994	TOTALS
HOTELS ON S. E. PENINSULA	IMPORT DUTY	40,800	42,432	983,349	5,113,414	5,317,950	5,530,668	17,028,613
	CONSUMPTION	39,460	41,038	951,053	4,945,473	5,143,292	5,349,024	16,469,340
	HOTEL	46,660	48,526	1,118,318	5,815,255	6,047,865	6,289,780	19,366,404
	OTHER	73,340	76,274	1,767,618	9,191,612	9,559,276	9,941,647	30,609,767
	TOTAL	200,000	208,270	4,820,337	25,065,754	26,068,384	27,111,119	83,473,864
CONDOS ON S. E. PENINSULA	IMPORT DUTY			109,840	228,467	475,212	1,235,551	2,049,070
	CONSUMPTION			105,520	219,482	456,522	1,186,956	1,968,480
	OTHER			184,600	383,968	798,653	2,076,499	3,443,720
	TOTAL			400,000	831,917	1,730,387	4,499,006	7,461,310
TOTALS:	IMPORT DUTY	40,800	42,432	1,093,189	5,341,881	5,793,162	6,766,219	19,077,683
	CONSUMPTION	39,460	41,038	1,056,573	5,164,955	5,599,814	6,535,980	18,437,820
	HOTEL	46,660	48,526	1,118,318	5,815,255	6,047,865	6,289,780	19,366,404
	OTHER	73,340	76,274	1,952,218	9,575,580	10,357,930	12,018,146	34,053,437
	TOTAL	200,000	208,270	5,220,337	25,897,670	27,798,771	31,610,125	90,935,174

TABLE 15
REVENUES FROM CONSTRUCTION
1989 - 1994

TAXES		1989	1990	1991	1992	1993	1994	TOTALS
HOTELS ON S.E. PENINSULA	IMPORT DUTY	330,700	1,261,128	1,192,360	1,240,055	515,862	536,497	5,076,602
	CONSUMPTION	317,730	1,211,639	1,145,560	1,191,382	495,615	515,439	4,877,365
	OTHER	825,270	3,147,041	2,975,388	3,094,405	1,287,273	1,338,763	12,668,140
	TOTAL	1,473,700	5,619,808	5,313,308	5,525,842	2,298,750	2,390,699	22,622,107
CONDOS ON S.E. PENINSULA	IMPORT DUTY		71,500	74,360	77,334	80,428	306,854	610,476
	CONSUMPTION		68,700	71,448	74,306	77,278	294,688	586,420
	OTHER		178,500	185,640	193,066	200,788	765,673	1,523,667
	TOTAL		318,700	331,448	344,706	358,494	1,367,215	2,720,563
TOTALS:	IMPORT DUTY	330,700	1,332,628	1,266,720	1,317,389	596,290	843,351	5,667,078
	CONSUMPTION	317,730	1,280,339	1,217,008	1,265,688	572,893	810,127	5,463,785
	OTHER	825,270	3,325,541	3,161,028	3,287,471	1,488,061	2,104,436	14,191,807
	TOTAL	1,473,700	5,938,508	5,644,756	5,870,548	2,657,244	3,757,914	25,342,670



I assent,
[Signature]
Clement A. Arrindell
Governor-General.
6th Nov 1986

SAINT CHRISTOPHER AND NEVIS
No. 13 of 1986

AN ACT to amend the provisions of certain Acts.

BE IT ENACTED by the Queen's Most Excellent Majesty by and with the advice and consent of the National Assembly of Saint Christopher and Nevis and by the authority of the same as follows:-

Short title.

Amendment of specified Acts.

- 1. This Act may be cited as the Law Reform (Miscellaneous Provisions) Act, 1986.
- 2. The Acts specified in the Schedule are amended to the extent indicated therein.

SCHEDULE

<u>Act</u>	<u>Amendment</u>
The Aliens Lawholding Regulation Act (Chapter 102)	By the deletion of the word "State" wherever it appears and the substitution of the words "Saint Christopher and Nevis".
Section 2.	By the insertion of the following proviso to the definition of the expression 'alien' "Provided further that the expression 'alien' shall not include any bank or financial institution whether incorporated within or outside of Saint Christopher and Nevis".
The Dogs (Injury to Poultry and Small Stock) Act (Chapter 110)	Repeal of section 5.

2.

<u>Act</u>	<u>Amendment</u>
The Land and House Tax Act (Chapter 251)	<p>By the addition of the following new paragraph at the end of the Schedule:-</p> <p>"On all land or land and improvements thereon situated in any Special Development Area a tax per annum at the rate of one-half (1/2) of one per centum of the assessed market value."</p>
Section 3	<p>"3A. The Minister may by Order designate any area as a Special Development Area."</p>
Schedule A Land Tax.	<p>By the insertion of the following after the words "cultivated land" or "cultivable land" wherever they appear - "other than in a Special Development Area".</p>
House Tax.	<p>By the deletion of the words "in the State" and by the substitution of the words "in any area other than a Special Development Area".</p>
The Stamp Act (Chapter 257) Section 2	<p>By the insertion of the following definition,- "Minister" means the Minister charged with responsibility for the subject of finance."</p>
Section 87	<p>By the insertion immediately after section 87C of the following new section as 87D.</p> <p>"87D. The Minister may by Order designate any area as a Special Development Area."</p>
The Schedule	<p>By the addition of the following subsection (d)</p>
Bank Loans to Aliens.	<p>"(d) any bank which provides a loan to any alien for the purpose of acquiring or leasing any property whatsoever in any Special Development Area shall be liable to payment of Stamp Duty of five (5) per centum of the total amount so provided."</p>
Conveyance or transfer of land.	<p>By the addition of the following new paragraph (e)</p> <p>"(e) Conveyance or transfer of land in any Special Development Area - ten percent of the amount of the consideration or market value by the transferor or vendor and four percent by the transferee or purchaser."</p>
Mortgage, Bond Debenture, Deed, Covenant and Warrant of Attorney.	<p>By the insertion of the following proviso after the words and figures in brackets "(And see sections 63 and 68)"</p> <p>"Provided that stamp duty at the rate of two per cent shall be payable under paragraphs (a) - (d) on transactions related to any Special Development Area."</p>

Lease.

By the insertion of the following proviso -

"provided that the stamp duty on leases in respect of property in any Special Development Area shall be -

- For any period up to 20 years 2% of the market value of the property payable by the lessor and 2% payable by the lessee.
- For any period of 20 years to 90 years 4% of the market value of the property payable by the lessor and 4% payable by the lessee.
- For any period over 90 years 10% of the market value of the property payable by the lessor and 4% payable by the lessee.

The Defence Force Act (Chapter 176)

By the deletion of the word "Governor" wherever it appears and the substitution of the following -

"Governor-General acting in accordance with the advice of the Minister".

Section 2.

By the insertion of the following definitions in their proper alphabetical order -

- "citizen" means citizen of Saint Christopher and Nevis;
- "Minister" means the Minister charged with responsibility for the subjects of defence and security".

Section 1)

By the deletion of the words "British subject" and the substitution of the words "citizen or resident".

The Vehicles and Road Traffic Act (Chapter 270) Section 62.

By the insertion of the following new paragraph -

"(o) drives or being the owner permits any other person to drive a motor vehicle on a road when the windows or windscreens of such vehicle are so tinted that the interior of the vehicle is not reasonably visible from the exterior of the vehicle.

[Signature]
Speaker

Passed by the National Assembly this 28 day of October, 1986.

[Signature]
Clerk of the National Assembly.

