Government of the British Virgin Islands

Expansion of the Terrance B. Lettsome International Airport

Outline Business Case

13 May 2016

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Abbreviations

OBC	Outline Business Case
B&M	Baker McKenzie
BVI	British Virgin Islands
BVIGOV	The Government of the {British} Virgin Islands
BVIAA	BVI Airport Authority
CCCC	China Communication Construction Company Limited
Consulmar	CONSULMAR Marine Services
IDL	IDL Projects Inc
McAlpine	McApline Limited
MTFP	Medium Term Fiscal Plan
PPP	Public Private Partnership
Project	Terrance B. Lettsome Airport Expansion Project
Protocols	Protocols for Effective Financial Management effective April 23, 2012
PwC	PricewaterhouseCoopers Advisory Services Limited (Trinidad)
PwC UK	Pricewaterhouse Coopers UK advisory practice
TBLIA	Terrance B. Lettsome International Airport
US	United States
VFM	Value for Money
WTTC	World Travel and Tourism Council

All currency stated herein is expressed in United States Dollars

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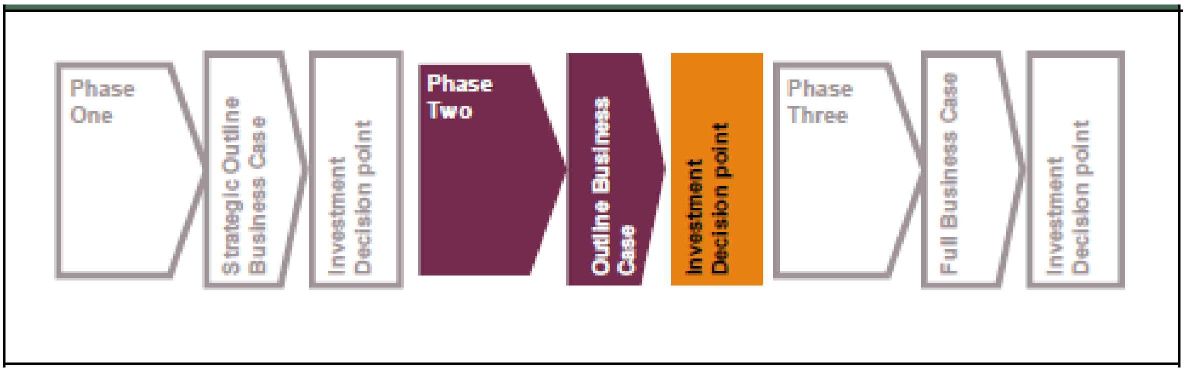
5. PwC was engaged in an advisory role and did not make any decision regarding selection of a bidder. PwC did not conduct any financial due diligence or technical due diligence regarding construction expertise or otherwise on any of the bidders. Our advice was limited to a background investigation on a member of a bidder's consortia, an assessment of the proposed financial and commercial terms of the shortlisted bidders' proposals and funding options for the project, preparation of an economic impact assessment report, and advising the client during their discussions with the bidders. PwC did not make any decisions for our client while assisting with the analysis, evaluation or negotiation process. PwC provided objective and transparent advice to an appropriate member of the BVIGOV Procurement Team or Ministry of Finance who will make an informed decision on whether to implement our advice. Our client is responsible for determining its negotiating position.

6. PwC did not promote any of the short-listed bidders or their interests as a recommendation for partnering with our client.

Status of Business Case Submissions

This Outline Business Case has been developed for the BVIGOV in keeping with their requirements under the BVI Protocols for Effective Financial Management. This Outline Business Case follows the submission of the prior Strategic Outline Business Case.

The diagram illustrates the current status of business case submissions in respect of this Project.



After the Investment Decision Point is conducted upon review of this Outline Business Case, it is envisioned that this OBC will be converted into a Full Business Case which will include the OBC contents as well as amendments for or the addition of items including but not limited to:

- Disclosure of the selected bidder, and summary of key final terms negotiated with said bidder (inclusive of any technical/design changes, and relevant allocations of risk);
- Summary of key final financing terms negotiated with the selected financiers or consortia of financiers;
- Update to the fiscal affordability analysis based on the final terms above.

Executive Summary

1. Objective

This Business Case has been prepared by the BVIGOV with input from advisors, and its objective is to present the case for the expansion of the Terrance B. Lettsome International Airport under a conventional Design Build (Finance) procurement model.

2. Project Summary

Expansion of the TBLIA runway is considered critical for the sustainability of the BVI economy and has been prioritised by BVIGOV. The current runway length does not have the capacity to accommodate larger airlines flying directly from North America, South America and Europe to BVI. Therefore, the cost and time to travel to BVI is comparatively higher than other similar destinations (e.g. St.Thomas). The runway length also has limited capacity to accommodate corporate jet traffic and has limitations on weight and size. The current runway specifications also do not meet the insurance requirements for most fleet jet operators for their larger sized jets.

Tourism revenue growth, diversification of income, expansion of financial services, further real estate and hotel developments, ease of business travel, other economic spill over effects, and ability to compete for tourists, are all key drivers of the urgent need for an expanded airport. The steady decline in passenger numbers and decreasing profitability of the airport is of national concern given the strategic importance of accessibility for economic growth.

3. National and Strategic Importance - Economic Impact

An economic impact assessment compiled by PwC UK confirmed the national significance of this project, and underscored the Premier's statement that this project is the Territory's most important.

Historically, since 2008, tourism is estimated to have contributed around 30% of GDP and has grown at a compound annual growth rate of 2.8% per year. Furthermore, the WTTC estimates that approximately 90% of employment within the BVI is supported directly or indirectly by the tourism industry. However, visitor arrivals have declined from approximately 900,000 in 2008 to approximately 700,000 in 2013. These arrivals increased to 770,000 in 2014 but this growth was primarily driven by increased charter boat and cruise ship arrivals due to the pier expansion. The declining trend in air arrivals is expected to continue without a major sustainable catalyst regarding expansion of the airport.

Additionally, the BVI's financial services sector is based on its position as a location for company incorporations which itself reflects its robust, easy-to-use and adaptable legal and regulatory framework. The sector has grown to become the largest source of government revenue and a crucial part of the economy, affecting many citizens either directly or indirectly. In 2013, it contributed 17% of GDP. It has fluctuated in nominal terms in recent years and, in 2013, was 16% below its peak level in 2007. Furthermore, since 2009, the landscape has changed as a result of the global financial crisis and the G20 countries' focus on offshore jurisdictions around the world. This has led to a decline in new incorporations in the BVI by 9 percent from 2011 to 2013. In 2014, company incorporations were also down 4.7% in comparison to 2013. Overall revenue from financial services remained resilient, due to the sustained performance of company re-registrations, and total revenue from financial services[1] remained virtually unchanged in 2014, at $207.9 million, with $200 million of this amount coming from company incorporations and re-registrations. However, revenue declines may begin to materialize over time if new incorporations continue to decline, and financial services is not expanded and diversified.

A recent Finance Services Steering Committee report which defines the sector's future strategy concluded that the BVI will struggle to sustain itself in the rapidly changing environment and that the issues faced represent a real threat to the BVI's long-term growth and prosperity[2]. The BVIGOV has strategic plans to address this major challenge; however, a key enabler for achieving these plans, and reversing the tourism arrival and financial services trends is the expansion of the TBLIA runway.

PwC UK's economic impact assessment regarding the benefits to be derived from expansion of the runway estimated the following direct, indirect, and induced impacts:

- Total additional employment in 2020 is estimated at 2,894, of which nearly 1,800 related to the direct economic impact on the tourism and financial services industries. This projected impact increases to 6,644 by 2050.

Expected employment impact of EIS development (2020 and 2050)

Economic impact	2020			2050		
	Tourism sector	Financial services sector	Total	Tourism sector	Financial services sector	Total
Direct	1,740	43	1,783	3,187	824	4,011
Indirect	856	12	868	1,567	174	1,741
Induced	207	36	243	380	512	892
Total	2,803	91	2,894	5,134	1,510	6,644

Source: PwC analysis

- Over the lifetime of the project, the Gross Value Added ("GVA") to the Territory, expressed as the net present value, was estimated for the tourism and financial services sectors separately. As shown in the table below, the total net wider impact of the airport development equalled $3.6 billion. The largest component of this impact is the direct effect, although both indirect and induced effects are significant.

Expected wider economic impact of EIS development (NPV of GVA, $m)

Economic impact	Tourism sector	Financial services sector	Total
Direct GVA	$1,473m	$605m	$2,478m
Indirect GVA	$972m	$83m	$1,055m

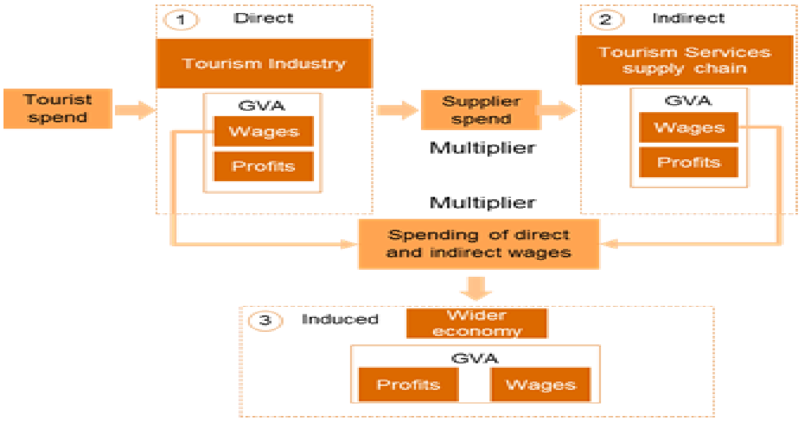
[1] Central Government retains 89% of this revenue, while the Financial Services Commission (FSC) retains 11%.

[2] 'Building on a thriving & sustainable Financial Services sector in the Financial Services sector in the British Virgin Islands' Financial Services Steering Committee, Final Report, December 2014.

Economic impact	Tourism sector	Financial services sector	Total
Induced GVA	$236m	$247m	$483m
Total GVA	$2,680m	$935m	$3,615m

Source: PwC analysis

- The inputs, factors, and GVA are best explained graphically as represented in the chart below:



If the airport expansion project is not undertaken, the impact of "doing nothing" would result in foregone economic benefits and employment, and the potential continued declining trend in the tourism and financial services sector, which would be compounded by the multiplier effect.

Summary of Airport Expansion Procurement Process to date

In 2012, BVIGOV commenced work on defining the strategic context for the expansion of the airport. Technical studies were commissioned by independent experts to define the potential scope of the airport expansion, and a Strategic Outline Business Case was prepared. An intermodal transportation centre designed to cater to the typical high end business and leisure travellers that visit the BVI was envisioned which incorporated not only the expansion of the runway and terminal but also an expanded ferry terminal, fixed based operations for private jets and hotel accommodations.

Also in 2012, BVIGOV launched a procurement process to attract proposals for construction of the full intermodal transportation centre. In 2013 bids were received from five bidders ranging in cost from $300 million to $415 million. This cost was considered to prohibitive for the BVIGOV.

In 2013, a revision was made to the procurement process (Addendum 15) whereby the scope of expansion was limited to only the runway and terminal building. BVIGOV also commissioned a detailed design of the runway to minimise environmental impact and costs. This design was prepared by independent engineers Consulmar (based in Portugal) and was provided to the bidders. Bids were received from three contractors under this revised process ranging in cost between $150 million and $194 million.

Later in 2013, after receipt of these revised bids, the BVIGOV commissioned the support of international legal advisers (B&M) and financial advisers (PwC) to advise on the overall procurement process, commercial considerations including funding options for the project, and various relevant legal considerations.

In 2014, BVIGOV also commissioned advice from Infrastructure UK on the procurement approach for the project.

Additionally, an investment grade passenger traffic forecast and related revenue forecast was commissioned to estimate the possible increase in passenger numbers based on an expansion of the existing runway from 1446 meters to 2284 meters. These forecasts were prepared by Boyd International regarding projected passenger volumes, and a revenue study, including comparative airport fees, was prepared by WSP (formerly Genivar).

Accordingly, these advisors submitted various reports and analysis which were presented to BVIGOV including:

1. Funding options including Design Build, Concession and JV
2. Preliminary financial model to test the potential viability of a Concession.
3. A market sounding exercise was also conducted which involved obtaining views of contractors (existing bidders) as well as potential financiers and operators located primarily in the Caribbean and North America.
4. Legal advice on procurement approach and impact on current process

In 2014, in an attempt to seek to minimize the project's funding impact on BVIGOV and ensure all Value for Money considerations were fully assessed, a decision was taken by BVIGOV to revise the procurement approach to a Concession for runway and terminal expansion only. After legal advice from B&M was considered, Addendum 16 was issued in December 2014 to the existing three bidders.

During 2015, various meetings and calls have been held with the bidders to clarify the requirements of Addendum 16 and in one instance to consider a hybrid option whereby an equity stake in the Concession from an operator would not be mandatory, and BVIAA would continue as the operator of the airport.

As of June 2015, despite several discussions with BVIGOV and the advisors, no formal submissions were made by the bidders in response to Addendum 16 including the hybrid option. In light of the pending national elections on June 7, 2015, the process was suspended by BVIGOV.

In November 2015, an assessment of the status of the project was performed and is summarised as follows:

- One of the bidders (CCCC) was not interested in a concession and was only interested in the Design Build (Finance) option and also offered financing terms

- The other two bidders (IDL and McAlpine) combined and formed a consortium with a third party (ICA) proposing to bring the financing and an operator. PwC and B&M met with this consortium, held discussions via telephone, and conducted a background investigation on ICA, and found no evidence of ICA's ability (past or present) to bring financing and an operator to ultimately deliver the project under a Concession. The proposed team (which did not include an operator) also never executed or delivered under a concession, and their proposed financing sources were obscure at best.

BVIGOV and its advisors are of the view that going back to the wider market on a Concession basis would take substantial time, and **significant uncertainty exists** as to whether doing so would deliver more capable bidders at this time given the commercials of the project particularly regarding the risks related to unproven passenger volumes. The financial analysis and market sounding conducted by PwC also indicates that BVIGOV would also need to provide assistance to any private investors in the form of financial support during the initial years of the project (see subsequent section).

Therefore, the Concession approach (or other alternative financing approach) was no longer considered a viable funding option for the project, particularly since a clear case for enhanced value for money over conventional financing approaches could not be made based on all analyses and considerations to-date. Accordingly, subject to final affordability deliberations, the Design Build (Finance) approach was recommended.

In December 2015, a decision was taken to revert to the Design Build (Finance) approach. In March 2016 Addendum 17 was issued to the two bidders and on May 6, 2016 two bids were received from the bidders ranging in price between $153.4 million and $198.9 million. An evaluation of the bids was conducted by a team of independent advisors including Consulmar, Baker & McKenzie and PwC. The bid evaluation report was submitted to the Central Tenders Committee and Cabinet for consideration.

Summary of Key Funding Requirements

The BVI Airport Authority proposes to borrow 100% of the construction cost for the runway and terminal expansion via debt financing. The following are the key broad indicative terms included in the current financial model for this proposed financing, based on BVIGOV prior borrowing and analysis/studies conducted to-date:

Amount	US$152.5 million (Runway Only)
Use of funds	Construction costs associated with expansion of the TBLIA runway
Source of funds	To be determined – sources include Bidders, Commercial Banks, Export Development Agencies
Tenor	10 years with refinancing for an additional 10 years
Moratorium	Principal - First two years
Interest Rate	4.5%

The financial model that reflects the terms above and other detailed key assumptions regarding projected cash flows are provided in the Appendices.

Protocols for Effective Financial Management ("Protocols")

During our assessment of the PPP procurement option under a Concession, all elements of Clause 14 were considered. This consideration includes, in summary, the conduct of a sound appraisal process; assessment of Value for Money over conventional financing; long-term affordability considerations (subject to pending updates to the MTFP);the accounting impact on the fiscal accounts, and the use of independent technical advisors.

As indicated above and herein, the PPP approach has been determined to not be viable for this project.

Under conventional debt financing, the Protocols require that:

"Unless in exceptional circumstances different arrangements agreed in writing by the Government of the Virgin Islands and the Secretary of State, the Government of the Virgin Islands will borrow only to fund capital expenditure where:

a. The proposed project is forecast to yield sufficient revenues to fund the additional debt service costs; or
b. The Government has sufficient surplus operating cash flows to fund the additional debt service costs which arise from borrowing to finance such capital expenditure.

With respect to ("a") above, the detailed cash flow forecasts and supporting analysis of the project conducted by advisors indicate that the proposed project is forecast to yield sufficient revenues to fund the additional debt over the long term.

Financial support in the region of $18 million to $38.6 million will likely be required by BVIGOV in the initial years of the project until passenger volumes ramp up. The lower end of the range ($18 million) is due to cumulative shortfalls aggregated over the first four years of the Project. The higher end of the range ($38.6 million) relates to cumulative shortfalls over a seven year period. It should be noted that the more optimistic "best case" passenger volumes included in Boyd's passenger forecast analysis was not considered on our assessment as a conservative measure. This forecast scenario results in no need for financial support from government as the expanded airport is self-funded over the project life. Boyd believes the high case scenario is reasonable, however, we have prudently excluded this scenario from all financial analyses and assessments of the project's viability.

The aforementioned levels of financial support required from BVIGOV can be reduced if BVIAA introduces various quantified revenue and cost savings measures that have been studied and approved by the BVIAA Board of Directors.

Various other measures can also be considered to reduce any government support, such as hypothecation of other revenue sources to BVIAA (for example incremental hotel taxes). It is also important to note that these shortfalls assume that the existing subsidy of approximately $3 million per annum by BVIGOV to the BVIAA will be eliminated by the optimisation measures proposed by the BVIAA. Therefore, the range of $18 million to $38.6 million represent the total subsidy to be provided by BVIGOV in initial years stated. The range reflects the high and base scenarios which both assume proposed fee increases by the BVIAA will be implemented.

Regarding ("b") above, the government's projected operating cash flow has been finalized under the framework of the MTFP.

The Protocols further state that "to ensure that the level of debt is affordable and consistent with the delivery of macroeconomic and fiscal sustainability and financial stability in the short, medium and long term as outlined in the MTFP, the Government of the Virgin Islands will comply with the borrowing limits defined in Annex B no later than the date specified in paragraph 2 of Annex D."

The borrowing limits state the following:

- Net Debt ≤ 80% of recurring net revenue;
- Debt Service ≤ 10% of recurring net revenue; and
- Liquid Assets ≥ 25% of recurring expenditure

In this instance, it is proposed that BVIAA would serve as the borrower for the Project's financing. BVIAA's risk weighting under the Protocols is 50%. Therefore, approximately $76 million (based on the estimated construction cost of $152.5 million) in estimated borrowings would be included as additional Net Debt under the Protocols.

The BVIGOV forecasts under the MTFP regarding the impact on the borrowing limits after inclusion of the airport project financing indicate the following:

Borrowing Limits	2012	2013	2014	EST'D 2015	PROJECTIONS 2016	2017	2018
Total Disbursed Outstanding Central Gov. Debt	102.26	91.60	95.82	107.34	118.28	103.37	89.57
Unsecured Debt Stock	12.75	35.73	2.66	-1.23	7.77	35.35	41.77
Total Disbursed Outstanding Central Gov. Debt and Unsecured Debt	115.01	127.33	98.48	106.11	126.05	138.72	131.34
Total Disbursed Outstanding Debt of Parastatals	18.85	16.48	41.08	76.19	142.05	211.32	228.16
Total Risk-Weighted Disbursed Outstanding Debt of Parastatals	3.77	3.30	8.22	15.24	43.41	79.76	90.63
Capitalized Value of Public Private Partnerships	0.00	45.00	45.00	45.00	45.00	45.00	45.00
Total Public Borrowing	118.78	175.63	151.70	166.34	214.46	263.48	266.98
Reserve Fund Balances/Liquid Assets	22.47	37.48	44.48	49.48	64.48	79.48	82.48
Parastatals' Interest payments	0.99	0.87	0.79	1.89	4.71	4.42	9.97
Parastatals' Principal repayments	2.25	2.36	2.15	2.14	5.14	5.72	8.16
Parastatals' Risk-Weighted Debt Service	0.65	0.65	0.59	0.81	2.14	3.21	5.57
Total Debt Service of Central Gov. and Parastatals	17.75	16.48	13.18	15.87	19.28	22.40	23.00
Net Debt	96.31	138.15	107.22	116.86	149.98	184.00	184.50
Net Debt as % of Recurrent Revenue (max 80%)	32.90%	45.68%	33.65%	37.15%	45.33%	54.45%	54.29%
Debt Service as % of Recurrent Revenue (max 10%)	6.06%	5.45%	4.14%	5.04%	5.83%	6.63%	6.77%
Liquid Assets as % of Recurrent Expenditure (at least 25%)	8.62%	14.58%	17.60%	17.78%	21.49%	25.80%	26.68%

As indicated in the table above, the risk weighted disbursed outstanding debt of parasatals will increase over the 2016 to 2018 period largely due to the airport expansion debt, reflected at the 50% BVIAA risk weighting as approximately $75 million.

However, the net debt and debt service ratios are projected at 50% and between 6% and 7% of recurrent revenue, respectively, which are substantially below the borrowing limit ceilings of 80% and 10%. The liquid assets are projected to be compliant with the 25% (of recurrent expenditure) borrowing limits by 2017.

Summary of Key Drivers of Recommendation

In summary, the key underlying drivers of this Outline Business Case and recommendation are as follows:

a. **Economic Impact:** the airport expansion project is extremely important for the future viability of the Territory and is an exceptional circumstance

b. **Cost:** after repeated analysis of various design and procurement options, and receipt of bids from qualified bidders, the minimum cost of the required expansion and terminal upgrade is approximately $152.5 million

c. **Forecasted Passenger Volumes:** the projected increase in passenger volumes is the critical driver of the project's forecasted cash flows. Forecasts have been provided by two leading aviation consultants (Boyd International and Louis Berger) which provide a sound basis for assessment of the project's commercial viability.

d. **BVIAA Improvements ("revenue and cost optimization"):** BVIAA, with the assistance of advisors, has developed quantified measures of increasing revenue and reducing cost that could eliminate the current subsidies provided by BVIGOV, and contribute to improved project cash flows post-expansion. The measures quantified include 'quick wins" and longer-term solutions. As a conservative measure, only the quick wins have been included in the Project's financial model.

e. **Project Cash Flows:** the financial modelling and supporting analyses conducted by advisors to-date indicate that the projected income post-runway expansion can cover all operating and debt servicing costs over the long-term. In the initial 4 to 7 years, financial support will likely be required by BVIGOV in the region of $18 million to $38.6 million in aggregate under the high and base scenarios, respectively. However, these levels of support may be reduced if BVIAA implements additional optimization measures, financing terms better than those included in the model are negotiated, and additional sources of revenue are identified and hypothecated to BVIAA. It is important to note that the level of BVIGOV financial support required could also increase, particularly if the projected passenger volumes do not materialize.

f. **Private sector ability and appetite to deliver the project under a PPP:** detailed sounding of the market, an attempt at a Concession procurement approach, several discussions with the current bidders, and a background investigation, indicate that a Concession is not a viable option for the project for the reasons outlined in detail on the subsequent pages. It should be noted that one of the bidders interested in a Concession indicated that to derive the required return the period for ownership transfer would have to be fifty (50) years, and financial support in the region of $30 million would be required from BVIGOV. All analyses to-date therefore indicate improved Value for Money will not be achieved under a PPP approach.

Key next steps

The following are the key next steps which need to be undertaken as at the date of this Outline Business Case:

1. Selection of a bidder contingent on securing financing

2. Final consideration and determination of measures to assist with funding the project, such as hypothecation of revenues from non-airport sources (e.g., new hotel taxes for example) to the BVIAA, reduction of costs by assessing cost of local rock etc

3. Securing funding for the project including negotiation of terms

4. Approval of BVIAA's Draft Business Plan focused on revenue optimization and cost savings towards elimination of the current subsidy from BVIGOV (draft plan already prepared; to be finalized and approved by Cabinet)

5. Preparation of Draft Full Business Case for BVIGOV approval, inclusive of updated inputs from tasks above

6. Submission of Final Full Business Case for UK FCO approval

The Strategic Case

The Virgin Islands Economy

The British Virgin Islands is an archipelago of over sixty islands, cays and islets, located approximately 90 miles east of Puerto Rico. The BVI's political, economic and legislative stability have established the territory as a leading jurisdiction for international businesses transactions, and related business travellers. The Gross Domestic Product of the BVI is mainly generated from the financial services sector and tourism.

Efficient air transportation which supports the movement of people and cargo is critical to sustain economic growth in any economy, and is particularly critical for the BVI. The following is an overview of the major sectors in the BVI.

In summary, excerpts of the Strategic Priorities included under the Economic section of the MTFP including the following:

- Build a thriving and sustainable financial services sector where we remain a world leading corporate domicile, expands value added services and build best in class enabling mechanisms to facilitate the sector's continued growth.

The decline in company incorporations observed over the last several years has signalled a clarion call to further diversify the financial services sector towards providing more value-added services. The 2014 McKinsey study has laid the framework for the protection and revitalisation of our financial services sector, and already we have begun to implement recommendations from this consultation. The Financial Services Implementation Unit under the Premier's remit has been tasked with leading the necessary transformations which will support growth of this industry. These recommendations include: revamping the International Finance Centre; strengthening the business development function; engaging the entire BVI population on financial services related matters and reforms; building BVIslander capability and participation in the industry; pursuing Tax Initiatives; enhancing customer service at the Financial Services Commission; attracting and offering Value-Added Services; reforming Immigration and Labour policies; and investing in Infrastructure.

Some notable achievements thus far include the establishment of an Arbitration Centre with the goal of strengthen the Territory's ability to facilitate the resolution of domestic and international disputes. From a financial services products perspective the recent creation of two new funds – the incubator and approved funds broadens opens up the availability of provides more

The FSC has created two new regulated fund categories – incubator fund and approved funds. They were created in order to provide more flexibility to smaller and start-up financial services businesses. Under the new fund categories, managers and principals of smaller, open-ended funds may be approved to conduct business within a lighter regulatory framework.

With close to half million registered companies, the BVI is one of the world's largest service providers for offshore entities. The BVI has been ranked as a top tier financial jurisdiction by the Financial Stability Board (FSB) in its latest evaluation on the adherence of all countries and jurisdictions to global regulatory standards. The BVI was listed as demonstrating "sufficiently strong adherence" to internationally agreed information exchange and cooperation standards in the areas of banking supervision, insurance supervision and securities regulation.

While the BVI presents a strong position in the market, the Financial Services Sector faces competition from other countries that offer similar registration services. The airport is critical to the sustainability and development of this sector.

- Grow the tourism sector to maximize economic output in a manner that balances economic opportunity with environmental sustainability and social harmony.

Tourist arrival numbers increased in 2014, and are expected to further increase in 2015, supported by overnight tourist arrivals and larger ships bringing more cruise ship passengers. Our efforts to grow the tourism sector have included the extension of the cruise pier and landside attractions, and investments towards the expansion of the TB Lettsome International Airport. Improving access to the Territory as well as putting emphasis on cultural and eco-tourism aspects of our product will help to ensure the economic and environmental sustainability of this vital sector of our economy.

Recently Expanded Cruise Industry

In 2012 a strategic decision was taken by the Government of the Virgin Islands to expand the Road Town Cruise Pier and develop a Pier Park in response to international and regional trends. These trends included but were not limited to the increased size of cruise vessels and a demand by cruise passengers for an enhanced experience upon disembarking the cruise vessels. The need to expand the Road Town Cruise Pier and Pier Park to respond to the market was recognised as critical to the economy of the Virgin Islands particularly in light of declining cruise ship calls to the Virgin Islands in recent years.

Work commenced on the expansion of the Road Town Cruise Pier in April 2014 and the BVIPA officially opened the expanded Road Town Cruise Pier on 29 April, 2015. The Pier Park is on target for completion by 15 December, 2015. Since the commencement of this pier expansion, the BVIPA has recorded a significant growth in ship calls with passenger numbers increasing from 355,800 in 2012 to 755,550 expected in 2016. Steady growth in passenger numbers is also expected to continue in the subsequent years.

As growing numbers of cruise passengers visit the island, it is likely that there will be a greater demand by travellers to visit the Territory for overnight stays. The demand for air transportation is therefore likely to increase. The expanded cruise industry presents an opportunity for BVI to consider even further expansion as a potential Home Port whereby passengers arrive in the BVI to commence their cruise. Establishment of a Home Port would depend on a number of factors including an expanded airport.

Medical Tourism

In 2014, BVIGOV completed the construction of a new hospital with world class facilities and equipment. An opportunity exists for the BVI to develop and market Medical Tourism. A critical element of Medical Tourism would be an efficient airport that can accommodate direct flights from major cities in the US and Europe.

The Current State of Air Transportation in BVI

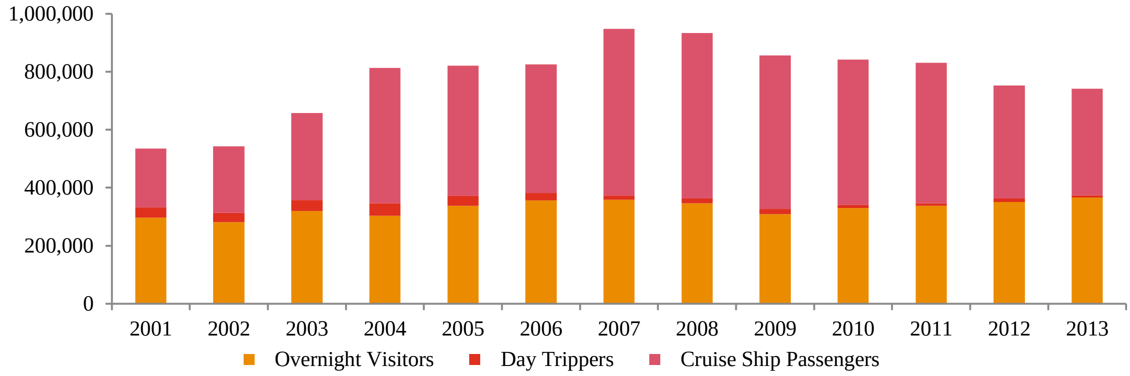
Over the past five years, the number of airline passengers travelling to the BVI has declined steadily. For reference, the historical passenger volumes recorded by BVIAA for the Territory over the 5-year period to 2015 was as follows:

No of passengers	12 mths Dec-11	12 mths Dec-12	12 mths Dec-13	12 mths Dec-14	12 mths Dec-15
Total Arrivals	130,160	121,130	98,482	100,580	103,431
Total Departures	130,397	132,323	147,855	97,654	100,813
Total Airport Traffic	**260,557**	**253,453**	**246,337**	**198,234**	**204,244**

The number of enplanements (departures plus arrivals) decreased in 2014 primarily due to service losses, i.e., American Airlines cut its services to the BVI in March 2014 and then closed the connecting hub in Puerto Rico. This limited the BVI's inter-regional service to two carriers at that time and restricted access to a large segment of the US market. The decrease in passenger traffic to the BVI has been attributed to the comparatively higher cost and time it takes travellers to get to the BVI as compared to neighbouring countries like St.Thomas and St.Maarten (that can both accommodate direct flights from the US mainland). An increase in overnight visitors to the BVI via ferry from St Thomas has been noted in recent years which is reflected in the overall increase in overnight visitors to the BVI.

At present, the limited ability for tourists to visit the Virgin Islands by air is borne out in the analysis of visitor types. The majority of visitors to the BVI stay on the island for less than one night. Instead, they arrive from a cruise ship or as a day trip from another island in the region. Few utilise international air travel (see chart below). As these types of visitors are only on the Virgin Islands for a very limited time, therefore their contribution to the Gross Value Added of the tourism industry is also less than that of overnight visitors.

Total visitors to the Virgin Islands by type of visitor/mode (2001-2013)



Source: BVI Central Statistics Office

Overnight visitors are more likely to travel by air than other visitors. Moreover, as they tend to stay longer in the BVI, they are more likely to spend more on tourism services. PwC UK's economic analysis shows that overnight visitors spend over 12 times more than other visitor types, i.e., in 2013, spending per visitor was approximately $1,100[3]. Therefore, if the development of EIS leads to more

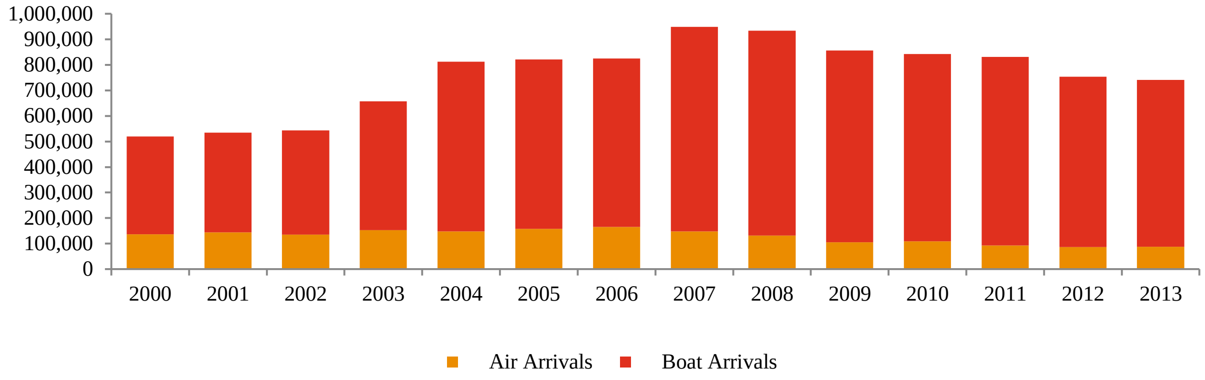
[3] BVI Central Statistics Office

overnight visitors (than other types), this will potentially have important economic benefits for the BVI going forward.

As shown in the chart below, however, the majority of visitors of all types currently utilise boats to travel to and from the Virgin Islands. Not only does this reflect the limiting effect that the air transport services available at EIS have on the ability of tourists to reach the islands, but it also indicates why the airport development may lead to some displacement in the tourism market. This means that while the EIS development will increase the ability of tourists to travel to the Virgin Islands directly by air and so increase passenger flow, some of these passengers are likely to be those who would otherwise arrive by boat.

Therefore, while it is expected one would see an increased passenger flow through the airport, this may be accompanied by some decline in the passenger flow to BVI by boat. This displacement is factored in the passenger volume forecasts and economic impact assessment.

<u>Visitor arrivals by mode of transport (2000-2013)</u>



Source: BVI Central Statistics Office

The BVI Airport Authority ("BVIAA")

The BVI Airport Authority is responsible for the management of three (3) Airports within the Virgin Islands (the Taddy Bay Airport on Virgin Gorda, the Auguste George Airport on Anegada, and the Terrance B. Lettsome International Airport located on Beef Island); as well as one (1) water aerodrome located at Gun Creek Virgin Gorda. The aim of the Authority is to provide quality services that will support not only the tourist industry but the local travelling and business community, as a whole, while ensuring the necessary regulatory compliance is achieved.

The Authority is governed by a Board of Directors headed by a Chairman. Its vision and mission statement respectively are reflected in its goals which include meeting or exceeding the safety and other requirements of the Air Navigation (Overseas Territories) Order 2001 and other applicable regulatory instruments, and creating an environment that fosters employee excellence.

The BVIAA remains committed to improving the air transportation service of the Territory, and maximising revenues and profitability while taking into account the need for environmental sustainability. In this regard, the BVIAA has defined the following strategic priorities:

	BVIAA Strategic Priorities
1	Increase passenger volumes to 500,000 by 2020 and 800,000 by 2025 taking into account national tourism and environmental policies.
2	Implement business development activities focused on diversifying and growing revenue streams with the objective of achieving sustainable revenue growth.
3	Cost-leadership approach to operating the various airports under the management of the BVIAA.
4	Improve operational effectiveness across all key functions – Operations, ATC, Finance, HR

Strategic Priority #1 - Increase passenger volumes to 500,000 by 2020 and 800,000 by 2025 taking into account national tourism and environmental policies.

Terrance B. Lettsome Airport (EIS), the airport that serves the BVI, does not have the capacity to accommodate the larger airlines that will fly directly from North America, South America and Europe, thus putting a constraint on the ability to expand the tourism based economy. The largest commercial aircraft currently serving EIS is the seventy two passenger ATR-72 600 flown by LIAT.

The airport has restricted capacity to accommodate corporate jet traffic and has limitations on weight and size. The current runway specifications do not meet the insurance requirements for most fleet jet operators for their larger sized jets. The decrease in passenger traffic to the BVI has been attributed to the comparatively higher cost and time it takes travellers to get to the BVI as compared to neighbouring countries like St.Thomas and St.Maarten (that can both accommodate direct flights from the US mainland).

Expansion of the airport would facilitate landings by larger aircrafts in the BVI. New routes would be opened up for airlines, allowing easier access for travellers to the BVI. Hotels and resorts would then have the market to expand, and new investments / developments will come on stream, thus increasing the revenues earned by the BVI Airport Authority as well as creating jobs and fuelling the economy.

The BVIGOV has been in constant communication with international airlines and corporate jet service providers as well as resort owners and developers on the island regarding the planned expansion.

Specific examples of demand for an expanded airport have been expressed as follows:

1. American Airlines and Jet Blue have held discussions with the BVIGOV on direct flights to the BVI from the US. Formalization of these discussions is planned for the near future, as well as initiating discussions with additional airlines.
2. IAM Jet Services in Barbados has received numerous requests for services to the BVI which they cannot satisfy given the constraints of the runway. The BVI currently accommodates approximately 700 smaller jet arrivals per annum as compared to 1100 per annum in Barbados where there are no runway constraints. Therefore, the potential for increased jet traffic after the expansion is quite evident.
3. Oil Nut Bay, one of the premier resorts in the BVI, is just one example of developers who have expressed strong demand for additional airlift into the BVI.
4. BVI attracts some of the wealthiest people in the world due to its pristine beaches, world class accommodation and, for businessmen and women, a world class financial services centre. Expansion of the airport will facilitate the potential for rapid growth of the economy, driven by an increase in the number of business travellers and tourists coming to the islands. The expansion of the airport is therefore the most important capital project for BVIGOV.

Critical Success Factor

In order to increase passenger numbers to the targeted 800,000 per annum, the Expansion of the TBLIA runway is critical. Increasing passenger numbers to this level would not be achieved based on the existing facilities of the airport.

Strategic Priority #2 - Implement business development activities focused on diversifying and growing revenue streams with the objective of achieving sustainable revenue growth

The Board and Senior Management of the BVIAA have developed a business plan which identifies a number of business development activities which could be undertaken in the short and medium term.

One immediate measure that has been identified is amendment to existing fees charged by the BVIAA. These fee increases would include increasing fees on existing services and introducing new fees on existing services. Initial market sounding and research has been conducted to compare fees and rates charged by similar airports in the region, and consideration has been given to the potential impact these increases may have on reducing the demand for air travel to the BVI. The following is a breakdown of the proposed revisions to the existing statutory rates. It is anticipated that the new rates could contribute as much as $3 million in additional revenue to the BVIAA per annum as outlined below:

Virgin Islands	
STATUTORY INSTRUMENT 2015 NO……	
STATUTORY RATES, FEES AND CHARGES ACT	
The BVI Airports Authority proposed revenue as a result of amendments to its STATUTORY RATES, FEES AND CHARGES	
	Annual Incremental Revenue To BVIAA
SCHEDULE A -Aircraft Landing Fees:	
Local Registered/Scheduled/Commercial aircraft	$ 67,822.92
General Aviation/Business and Non-schedule Airlines	$ 10,553.36
SCHEDULE B - Lighting Fee	no increase
SCHEDULE C - Extended/Early Operation Charge	$ 173,542.50
SCHEDULE D - Aircraft parking fee	$ 3,918.33
SCHEDULE E - Terminal rent and use charges	$ 11,340.00
SCHEDULE F - Security Tax (Airport Security passes)	$ 13,291.20
SCHEDULE G - Car Park and Towing Charges	$ 199,093.86
SCHEDULE H - Navigational Communication Fees	$ 77,071.50
SCHEDULE I - Foreign Operators Permit	$ 188,100.00
SCHEDULE J - Other Charges	
Cargo Facility Charge	$ 1,613,742.00
Fuel Flow Fee	$ 2,765.70
Sewerage Dumping Fee	$ 76,554.00
Fire Truck Usage	$ 810.00
(XI) **Airport Development Fee:**	
Airport Development Fee (Virgin Gorda)……………………………………………	$ 211,059.00
Airport Development Fee (Anegada)……………………………………………………	$ 44,721.00
Airport Development Fee (interisland)…………………………………………………	$ 15,412.50
(XII) **Hold Baggage Screening Fee:**	
All departing passengers…………………………………………………………………………	$ 342,995.00
Total Proposed revenue	**$ 3,052,792.87**

Medium to longer term business development measures are also under consideration which will likely require initial capital investments e.g. Expanding Car Rental Operations, Refurbishing the VIP Lounge, and Expanding Fixed Based Operations etc . The BVIAA also recognises the need for recruiting a Business Development resource to lead assessment and development of these initiatives.

Strategic Priority #3 - Cost-leadership approach to operating the various airports under the management of the BVIAA.

The BVIAA will work closely with BVIGOV on the cost saving measures that could be implemented taking into account the overall impact to the economy and social sector impact.

Strategic Priority #4 - Improve operational effectiveness across all key functions – Operations, ATC, Finance, HR

The BVIAA has identified a number of areas for institutional strengthening across all supporting functions of the organisation. This need is heighted in light of the proposed expansion and measures are being implemented to drive improvement. Refer to the BVIAA Business Plan 2016 to 2018 for full details of the revenue, cost, and institutional strengthening measures planned.

Economic Impact Assessment
BVIGOV commissioned an Economic Impact Assessment which was compiled by PwC UK which supports the expansion of TBLIA. The key messages are set out below. A copy of this report is attached as an Appendix to this OBC.

- In 2020, once all airlines expected to serve TBLIA have fully established routes, it is estimated that an additional $60 million in value would be added to the economy as a result of the airport. This is more than 6% of the current GDP of the BVI.

- The increase in GDP associated with the airport development suggests that a substantial change in the island's infrastructure would be required in order to accommodate the additional passenger flows, including hotel infrastructure. It was estimated that between 750 and 1,150 (30% increase on current levels) additional rooms will be required by 2020 in order to realise this benefit. Without this additional infrastructure, and similar investment in other supporting (public) services and other forms of accommodation, it is expected that the economic impact would be significantly lower.

- Based on the level of additional value generated, it is estimated that the direct impact of the airport development would result in an additional 1,700 jobs in 2020. The ongoing growth in passenger numbers and economic activity over the appraisal period forecasts an additional increase of 3,000 jobs by 2053. Both these estimates are based on certain employee productivity assumptions set out in the report; if productivity growth is faster, the forecasted number of jobs created would be smaller.

- It is estimated that the total Gross Value Added impact of the airport on BVI from 2018 to 2053, in NPV terms, will be $2,437m. This includes the indirect and induced impacts (those relating to supply chain and employee spending respectively) in addition to the direct impact outlined above. These impacts are estimated using multipliers derived from WTTC data, and sense-checked against previous studies in the region. Including the indirect and induced impacts increases the estimated additional jobs supported to 2,740 in 2020 and over 4,000 in 2053.

- It is estimated that in order to provide the labour supply needed to fill these additional jobs, the population of BVI would need to increase by 10% by 2020 (relative to 2013 levels). This is equivalent to an increase of 1.8% each year until 2020. This would require a reversal of the recent downward trend in population.

- The estimate of the total economic impact assumes that there will be sufficient working-age population; if there is insufficient labour supply, it is likely that the additional impact generated would be reduced.

- "Doing nothing" re runway will have severe adverse impact on BVI economy, as the GVA from increased economic activity will be largely foregone, and the current declining trend regarding tourist arrivals and the financial services sector may continue. This impact will then be amplified by the multiplier effect on the wider economy.

Proposed Scope of Expansion

In 2012, the BVIGOV developed a long term vision to create a unique intermodal transportation centre.. A basic concept design was developed which included the following key elements/components of the full expansion project:

1. **Extension of existing Runway into the sea**
2. **Passenger Terminal Expansion and upgrade**
3. Aircraft Ramp Expansion (G-5 aircraft, RJ's; A-320; 737-800; other private jets)
4. Sewage Treatment Plant and Fire Fighting system relocation
5. New FBO Facility
6. Pleasure craft water access-excavated channel
7. Inter-Island Ferry/Transport service upgrade/relocation and provision for local fishing vessels
8. Trellis Bay Welcome and Visitor Center (Transportation Intermodal Center)
    a. Crafts and gift shop
    b. Indigenous arts and craft manufacturing & museum
    c. Live flora indigenous to Beef Island (lignum vitae stand of trees)
9. Traffic Reorganization- Including upgrade of airport access roadway from existing Queen Elizabeth Bridge via a "tunnel" to airport
10. Car-park upgrade
11. Meteorological Facility

The BVIGOV noted that to undertake expansion of the full scope as listed above would cost approximately US$400 million and would be conducted over a five year period.

In 2013, taking into account the fiscal limitations of the BVI economy, BVIGOV gave consideration to a phased expansion of TBLIA such that only extension of the runway and expanding the terminal building would be undertaken initially. It was expected that this scope of expansion would cost approximately US$152.5 million and be completed within 2 years.

The Economic Case

Assessment of Funding Options

In 2013, the BVIGOV engaged PwC to assist with an assessment of the funding options available for procurement of the expanded runway and terminal, with the main objective of minimising the debt burden to the BVIGOV. In January 2014, a funding option report was prepared outlining the pros and cons of the following funding options:

	Macro Considerations				Micro Considerations						
	Time to implement	Long Term Public Ownership	Off Balance Sheet Treatment	Suitability for Private Finance	Construction Risk & Schedule Certainty	Whole Life Maintenance	Scope for Innovation	Change and Operational Flexibility	Incentives to Enhance Revenues	Incentives to Enhance Performance	Cost Competitiveness
Design Build (Status quo)	✓✓✓	✓✓✓	×	×	×	×	×	✓✓✓	×	×	×
Airport Authority Model	✓✓	✓✓✓	×	✓✓	*	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓✓
P3 - Design Build Finance Maintain (Availability)	✓	✓✓✓	×	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓✓	×	×	✓✓
Concession – DBFOM – w/ Partial, Temporary Subsidy	✓	✓✓✓	×	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓	✓✓	✓✓
Minority Sale/Joint Venture	✓	✓✓	×	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓

In May 2014, further analysis was conducted by Infrastructure UK on the funding options available to the BVI for procurement of the expanded airport. A copy of the report prepared by Infrastructure UK is included as an Appendix.

In June 2014 a decision was taken to pursue the Concession option primarily on the basis that it could present a potentially viable option that would minimise the initial capital outlay required by BVIGOV.

Financial modelling which took into account the historical performance of the airport and projected passenger traffic was undertaken. The following is a breakdown of the underlying financial information and the specific financial analysis that was prepared for the following procurement options:

1) Concession

2) Design Build

BVIAA Historical Financial Performance

BVIAA currently operates and manages all of the airfields in the BVI. These include EIS, Virgin Gorda and Anegada. The financial statements of the BVIAA presented in the table below show that the performance of the BVIAA over the prior five year period through to December 31, 2015. Through 2015, BVIGOV provided a subsidy ("government grant") amounting to approximately $3 million per annum to support the operations of the BVIAA. This subsidy has been reduced to approximately $2.2 million for FY2016, and BVIAA is working with BVIGOV to eliminate this subsidy in total by 2017 by implementing the aforementioned measures to increase revenues and better manage costs.

BVI Airport Authority
Historical Financial Statements
Income Statement 2011 - 2015

US$	Audited 12 Months Dec-11	Audited 12 Months Dec-12	Audited 12 Months Dec-13	Unaudited 12 Months Dec-14	Unaudited 12 Months Dec-15
OPERATING INCOME					
Departure tax	1,409,266	1,275,115	1,263,697	1,232,357	1,319,099
Security screening fees	720,497	610,120	493,098	400,435	514,025
Security tax	626,555	550,130	526,973	500,710	440,760
Airport development fees	1,840,168	2,142,790	2,092,920	2,321,114	2,090,150
Landing fees	641,836	749,837	760,764	734,479	841,148
Concession income	549,188	437,553	437,460	541,946	546,635
Parking lot income	138,977	122,829	112,854	109,335	165,162
Other income	265,157	333,813	279,803	383,212	323,238
Total operating income	**6,191,644**	**6,222,187**	**5,967,569**	**6,223,588**	**6,240,216**
Government grant	3,158,700	3,158,700	2,842,800	2,748,100	2,610,700
Total income	**9,350,344**	**9,380,887**	**8,810,369**	**8,971,688**	**8,850,916**
OPERATING EXPENSES					
Staff costs	(5,886,913)	(6,046,619)	(6,262,063)	(6,823,594)	(6,459,249)
Maintenance	(864,474)	(803,601)	(806,777)	(821,120)	(756,626)
Depreciation	(1,667,852)	(1,705,141)	(1,657,697)	(1,677,076)	(1,677,076)
Utilities	(609,432)	(628,958)	(628,908)	(607,393)	(449,510)
Bad debt service	(194,990)	(174,164)	(308,492)	(629,467)	(93,137)
Insurance	(326,322)	(315,799)	(336,559)	(225,638)	(272,316)
Professional services	(308,422)	(606,923)	(242,479)	(224,117)	(157,313)
Office expenses	(122,875)	(99,910)	(133,790)	(103,011)	(46,195)
Telephone	(145,057)	(152,243)	(151,780)	(125,653)	(135,186)
Training	(126,412)	(172,613)	(350,938)	(202,068)	(97,397)
Finance charges	(59,582)	(55,404)	(42,983)	(69,444)	(56,439)
Travel and entertainment	(17,812)	(27,250)	(59,143)	(48,828)	(48,522)
Other operational expenses	(117,686)	(149,803)	(162,141)	(293,570)	(190,411)
Total expense	**(10,447,829)**	**(10,938,427)**	**(11,143,750)**	**(11,850,979)**	**(10,439,374)**
Operating Profit	**(1,097,485)**	**(1,557,540)**	**(2,333,381)**	**(2,879,291)**	**(1,588,458)**

Fees and Rates Charged by BVIAA

The current fees outlined below are the charges currently in effect and implemented by BVIAA as at the date of this OBC. The proposed fees presented below include certain proposed fee amendments, as well as the proposed introduction of new fees, which will be formally submitted by BVIAA to Cabinet for approval as part of the BVIAAs business plan for 2016 to 2018. These proposed fees were derived by BVIAA to improve the profitability of the Airport, and the fact that fees have not been increased or amended for several years. The proposed fees have not yet been approved and are presented below for comparison purposes.

Passenger Charges

Current passenger revenue comprises fees and taxes charged directly to the passengers. The major fees and taxes are set out below. The full list of proposed fees and taxes is included as an Appendix:

Revenue type	Current Fee	Proposed Fee
Departure Tax	Residents: $10 per departing passenger	Residents: $10 per departing passenger
	Non-resident: $15 per departing passenger	Non-resident: $15 per departing passenger
	Departure tax is a government tax collected directly by BVIAA, with 75% currently rebated to BVIAA. Children, members of GOBVI and judges are exempt from departure tax.	
Security Tax	$5 per departing passenger	$5 per departing passenger
Airport Development Fee	$10 per arriving passenger, $10 per departing passenger	$10 per arriving passenger, $10 per departing passenger $5 per arriving and departing domestic passengers
	Paid directly to airline	
Security Screening Fee	$7 per departing passenger (more than 14 persons)	$7.00 per departing passenger
	This fee is charged directly to the airline.	

Airline Charges

Airline fees currently charged to the various carriers comprise:

Revenue type	Current Fee	Proposed Fee
Landing Fees	Signatory carriers (being those airlines leasing counter space or office space in the terminal): $2 per 1,000 lbs (or part thereof) of the aircraft's MTOW.	$2.50/ 1,000 lbs of MTOW
	Non-signatory carriers: $2.50 per 1,000 lbs (or part thereof) of the MTOW	$3.00/ 1,000 lbs of MTOW
	Minimum charge (applicable to aircraft with MTOW < 5,000 lbs): $10	Minimum charge (applicable to aircraft with MTOW < 5,000 lbs): $12
	Landing fee (Aircraft > 16 PCN) No fee	$200
	Landing fee (Aircraft needing CAT VI Fire Upgrade) No fee	$300
	Domestic flights within the BVI are charged at 50% of the applicable fee	

Revenue type	Current Fee	Proposed Fee
Lighting Fees	$35 per hour (or part thereof) between 23:00GMT and 02:00GMT	$35 per hour (or part thereof) between 23:00GMT and 02:00GMT
Parking Fees	15% of the Landing Fee for every 24 hours (or part thereof) that the aircraft remains on the terminal ramp in excess of 3 hours	20% of the Landing Fee for every 24 hours (or part thereof) that the aircraft remains on the terminal ramp in excess of 3 hours
Late Charges	$225 per hour (or part thereof) for flight arriving after 02:00GMT	Extended / Early Operation Charge (operating after 23:00GMT & before 02:00GMT) 1 hour (or part thereof) - $975 2 hours (or part thereof) - $1,625 3 hours (or part thereof) - $3,225 Each additional 30 minute after 3 hours - $100
Navigation & Communication Fee	No fees are currently charged in these revenue categories.	Aircraft 0 – 12,500 lbs - $5 Aircraft 12,501 – 75,000 lbs - $10 Aircraft 75,001 - 100,000 lbs - $15 Aircraft > 100,000 lbs - $20
Parking fee for derelict / non-operational aircraft		$30/ day
Cargo fee		(loading and off-loading) Below 2lbs......................... $1.00 per item 2 lbs – 9.9 lbs .... $2.00 per item 10 lbs to 19.99lbs... .... $4.00 per item 20 lbs - 49.99lbs................. $6.00 per item 50lbs – 99.99lbs................ $8.00 per item 100lbs – 199.99lbs.............. $10.00 per item 200lbs – 500lbs....................$15.00 per item Over 500 pounds .... $30.00 per item
Fire truck usage		$25
Damage to runway lighting		$1,000

Current Concession Fees

Revenue type	Current Fee	Proposed Fee
Check-in / Counter Space Concession	$300 per month	$300 per month
	There are a total of 21 counter spaces at the Airport, of which 2 are currently vacant	
Terminal Office and Commercial Space Concession	$40 per sq. ft. per annum (minimum of $500 monthly)	Class A (landside) - $40 per sq. ft. per annum Class B(airside plus carge) - $45 per sq. ft. per annum
Electricity Surcharge	*An electricity surcharge is charged to tenants which is typically stipulated in the tenant agreements. This electricity surcharge averages $1,200 per annum*	

Traffic Forecasts

Passenger Forecasts and projected revenue for 2018 to 2055

In 2014, Government commissioned an independent investment grade study to provide reasonable future projections for air traffic to the Airport in the British Virgin Islands, based on a planned investment in a runway extension allowing a wider range of air service. In September 2014, Boyd International ("Boyd") issued a final report to Government which provided an investment grade projection of the air traffic passenger demand that the Airport can expect after the completion of a runway extension that allows nonstop flights to North America. The report included an overview of the airline brands that can be expected to take advantage of the Airport traffic opportunity, based on current airline industry structure. A copy of this report is included as an Appendix.

Based on the Boyd report, the potential traffic that the Airport can be expected to attract with a longer runway will parallel the profile of St. Thomas. Currently, St. Thomas experiences very high traffic strength, with airline load factors – percentage of seats sold – approaching 90%. According to Boyd, this is a strong indicator that there is sufficient demand for flights to the region and an Airport expansion will allow BVI to take advantage of this opportunity.

Projected Passenger Traffic

The Boyd analysis considered 3 growth scenarios in its passenger forecasts: high, low and baseline. According to the baseline projection presented by Boyd, enplanements are expected to expand from approximately 104,000 in 2014 to over 400,000 by 2021, 4 years after the opening of the runway expansion. The Boyd report assumed runway construction would be completed by mid-2018.

Boyd's projected growth in passenger traffic from 2018 to 2055 is approximately 3.6% per annum under the baseline scenario (High - 4.4% p.a., Low - 2.9% p.a.). Based on this annual growth it is expected that over 620,000 passengers will be visiting BVI in 2055. The detailed passenger traffic forecast for the 3 scenarios (High, Low and Baseline) from 2018 to 2055 is shown in the table below. It should be noted that prior to the economic downturn in 2009, as well as the pull out of American Eagle in 2013, enplanements averaged 180,000 per annum.

As indicated below, Boyd has somewhat conservatively forecasted a return to these levels under the "high" scenario only in the first year the expanded runway is open, as the low and baseline forecasts that year equal 138, 173 and 168,144 respectively.

Passenger Enplanements for Terrance B. Lettsome Airport			
Year	**High**	**Low**	**Baseline**
2018	185,350	138,173	168,144

Passenger Enplanements for Terrance B. Lettsome Airport			
2019	326,096	224,276	288,663
2020	492,242	291,179	398,328
2021	500,833	296,849	403,377
2022	509,595	302,677	408,500
2023	518,533	305,095	413,701
2024	517,649	307,537	418,980
2025	536,948	310,003	424,337
2026	546,433	312,495	429,775
2027	556,107	315,011	435,295
2028	565,975	317,522	440,898
2029	576,041	320,119	446,584
2030	586,307	322,711	452,356
2031	596,779	325,329	458,215
2032	607,461	327,974	464,161
2033	618,356	330,645	470,197
2034	629,469	333,342	476,323
2035	640,804	336,067	482,541
2036	652,366	338,819	488,852
2037	664,159	341,598	495,258
2038	676,188	344,405	501,760
2039	688,457	347,240	508,359
2040	700,972	350,104	515,058
2041	713,737	352,996	521,857
2042	726,758	355,917	528,758
2043	740,039	358,868	535,762
2044	753,586	361,827	542,872
2045	767,403	365,857	550,088
2046	781,497	367,897	557,412
2047	795,873	370,697	564,847
2048	810,536	374,068	572,392
2049	825,492	377,200	580,051
2050	840,748	380,363	587,716
2051	856,309	383,558	595,716
2052	872,184	386,784	603,735
2053	888,370	390,043	611,854
2054	904,883	393,335	620,104

Passenger Enplanements for Terrance B. Lettsome Airport			
2055	921,727	396,659	628,479

Source: Boyd International Group

In November 2015, during a meeting held with the IDL/McAlpine consortia, it was noted that the consortia also commissioned its own independent passenger traffic forecast report that was compiled by Louis Berger (well-known aviation industry consultants, and prior advisor to BVIGOV when the project was conceived). According to Louis Berger, the expected passenger enplanement numbers were expected to be at a level between Boyd's Base and Low Case. Therefore, the projected passenger volumes have been forecasted by two respected aviation consultants, where a "reasonableness test" has been provided by Louis Berger who would've been incentivized to be conservative s advisors to a potential private investor.

Passenger Enplanement by Carrier

The Boyd report also provides a detailed breakdown of enplanements by airline. According to Boyd, 4 major carriers (American, JetBlue, Spirit and Delta) are expected to begin nonstop flights to BVI from major North American markets within 2 years after the expected completion of the runway expansion in mid-2018.

The Boyd report noted that American, Spirit and Jet Blue are expected to begin flights to BVI upon the completion of the runway expansion project. American is expected to add another route within a year and United and Delta are expected to begin direct flights by 2020. In addition to bringing new passengers to BVI, it is forecasted that these new carriers will capture 50% of the current passenger base. The Boyd report also contains a table of passenger enplanement forecasts by airline for the Airport for the period 2018 through 2055.

The table shown presents the statistics by airline carrier for 2018 to 2022. These projections are in line with the baseline passenger forecasts, expanding from 168,144 in 2018 to 408,500 by 2022.

Carrier Baseline Passenger Enplanement Forecast

Carrier/Market	*2018*	*2019*	*2020*	*2021*	*2022*	*5yr Total*
American MIA	43,800	87,600	88,914	90,248	91,601	402,163
American JFK	15,330	30,660	31,120	31,587	32,060	140,757
American CLT		14,167	28,333	28,758	29,189	100,447
JetBlue SJU	27,375	54,750	55,571	56,405	57,251	251,352
Delta ATL			50,918	51,681	52,456	155,055
Delta JFK			12,319	12,504	12,691	37,513
Spirit FLL	19,847	39,694	40,289	40,893	41,507	182,230
United EWR			16,151	16394	16,639	49,184
United IAD			8,076	8197	8,320	24,592
United ORD			4,845	4918	4,992	14,755
Current Enplanements @50%	61,793	61,793	61,793	61793	61,793	308,963

Carrier Baseline Passenger Enplanement Forecast						
Total	168,144	288,663	398,328	403,377	408,500	1,667,013

Source: Boyd International Group

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Revenue Analysis

Government also commissioned an independent report on the revenue forecasts for the Airport. This revenue forecast was prepared by well-known aviation consultants WSP (formerly Genivar). WSP utilised the investment grade air service analysis and traffic forecasts provided by Boyd. WSP conducted an analysis of the existing and proposed rates and fees, and also performed a detailed analysis of the aircraft movements anticipated by Boyd in order to calculate aircraft related fees. WSP also conducted a comparative benchmarking assessment of fees charged by other regional airports, and considered demand elasticity, in order to determine BVIAA’s capacity to increase current fees and introduce new fees. A copy of this report is included as an Appendix.

Revenue forecasts were broken down into 3 categories: passenger related, aircraft related and non-aeronautical.

The projected revenue analysis per WSP's forecast based on the proposed rate increases is presented in the table below:

Revenues at Proposed Rates (US$ 2013 Prices)				
Year	Passenger Related	Aircraft Related	Non-Aeronautical	Total
2013	4,921,113	1,303,998	724,600	6,949,711
2018	7,954,052	2,340,957	1,065,499	11,360,508
2019	13,655,203	3,786,037	1,684,358	19,125,598
2020	18,842,906	5,500,430	2,247,688	26,591,024
2021	19,081,749	5,562,458	2,275,619	26,919,826
2022	19,324,093	5,632,145	2,303,950	27,260,187
2023	19,570,126	5,673,066	2,332,701	27,575,893
2024	19,819,849	5,775,455	2,361,873	27,957,176
2025	20,073,262	5,852,130	2,391,465	28,316,857
2026	20,330,506	5,923,569	2,421,494	28,675,569
2027	20,591,630	6,007,444	2,451,964	29,051,038
2028	20,856,680	6,079,564	2,482,881	29,419,125
2029	21,125,656	6,152,312	2,514,246	29,792,214
2030	21,398,701	6,250,106	2,546,073	30,194,880
2031	21,675,861	6,350,602	2,578,369	30,604,831
2032	21,957,136	6,452,421	2,611,132	31,020,689
2033	22,242,669	6,482,950	2,644,380	31,369,999
2034	22,532,460	6,587,400	2,678,112	31,797,972
2035	22,826,602	6,673,413	2,712,339	32,212,354
2036	23,125,144	6,714,961	2,747,065	32,587,170

Revenues at Proposed Rates (US$ 2013 Prices)				
2037	23,428,180	6,816,088	2,782,302	33,026,570
2038	23,735,757	6,899,059	2,818,055	33,452,871
2039	24,047,922	6,988,556	2,854,329	33,890,808
2040	24,364,819	7,083,964	2,891,140	34,339,923
2041	24,686,445	7,162,273	2,928,488	34,777,207
2042	25,012,897	7,251,896	2,966,383	35,231,177
2043	25,344,221	7,341,577	3,004,832	35,690,630
2044	25,680,560	7,425,979	3,043,849	36,150,388
2045	26,021,913	7,510,422	3,083,434	36,615,769
2046	26,368,375	7,594,922	3,123,599	37,086,896
2047	26,720,087	7,679,507	3,164,359	37,563,954
2048	27,077,004	7,764,128	3,205,709	38,046,841
2049	27,439,313	7,849,358	3,247,670	38,536,341
2050	27,807,062	7,934,122	3,290,247	39,031,430
2051	28,180,345	8,019,494	3,333,451	39,533,289
2052	28,559,211	8,104,906	3,377,286	40,041,403
2053	28,943,753	8,243,509	3,421,765	40,609,027
2054	29,334,020	8,347,341	3,466,891	41,148,251
2055	29,730,199	8,456,600	3,512,686	41,699,485

Source: WSP

The following is a summary of the key financial analysis that was conducted for the Concession and for the Design Build Approaches:

Concession

Key Commercial Considerations prior to release of Addendum 16

In November 2014, PwC presented certain commercial considerations to Government regarding the Concession approach to the Airport Project. Some key highlights are noted below:

Based on assumptions provided by technical advisors (Boyd and WSP) regarding passenger traffic and revenue analysis, using the Base Case passenger traffic projected by Boyd, the cash flow projections of the Project present a project with positive Net Present Value and an Internal Rate of Return above 10% if government support in the region off $17 million to $21 million is provided in the initial three years (see table below). However, when the Low Case passenger traffic is applied, the case for a concession appears very challenging as there will be a requirement for a significant level of government support to achieve a realistic IRR. The table below shows that under the Low Case to achieve a 6% IRR an injection of $38.7 million was required.

The commercial viability of the Project is primarily assessed based on the estimated NPV and IRR that bidders would likely require for a project of this nature. The shortfall in cash flows summarized herein was estimated as the potential injection government required order to improve the NPV and IRR. The commercial viability and shortfall were calculated for a few scenarios. This analysis is summarized below for ease of reference.

Key Assumptions -

- Base case traffic forecast prepared by Boyd
- Revenue Analysis prepared by WSP, including proposed price increases prepared by BVIAA and submitted to BVIGOV
- Capital Costs - US$165 million estimate for runway (mid-range of last bids, and lower than WSP's estimate of US$180 million) and US$8 million for terminal]
- Debt to Equity: 70/30
- Interest Rate of Debt: 6%
- Moratorium on interest for first two years
- Term of Concession: 35 years
- Life Cycle Costs provided by WSP
- Inflation: 2.5%
- Operating Costs – inclusion of estimated cost savings on current costs and a step up after expansion
- Proposed price increases prepared by BVIAA factored in from 2018 (after completion of runway)
- No government grant/subsidy is included, e.g. the current grant to BVIAA is not included
- The impact of alternative FBO arrangements (from current arrangements held by BVIAA) is not factored in this model
- Exclusion of revenues and costs associated with Virgin Gorda, Anegada and other excluded assets from the Concession (i.e. Air Traffic Control)

It should be noted that at the time the financial analysis was performed the start date of the construction was assumed to be 2016 with a target completion in 2018.

Illustrative results based on these assumptions are presented in the table below.

Concession - Base Model

BASE MODEL

	Scenario	NPV	IRR	TOTAL Shortfall	
1	Base Case Volume, Current Fees	5,911,823	10%	(20,703,828)	Total shortfall incurred to 2019
2	Base Case Volume, Proposed Fees	42,459,853	11%	(17,127,460)	Total shortfall incurred to 2019
3	Low Case Volume, Current Fees	(79,566,657)	6%	(38,698,892)	Total shortfall incurred to 2032
4	Low Case Volume, Proposed Fees	(52,845,442)	8%	(22,819,490)	Total shortfall incurred to 2021

Using the assumptions above the NPV, IRR and potential shortfall were calculated. As noted previously, if the Base Case passenger traffic is considered then the NPV and IRR appear marginally reasonable to attract private investment while the shortfall ranges between $17 million and $20.7 million. This shortfall would be expected to be met by BVIGOV.

However under the Low Case Scenario, the Project is not viable using the current assumptions as shows a negative NPV and an IRR of 6% to 8%. Under the low case the Project also requires a significant level of financial support by the BVIGOV in order to make the Project attractive to a potential concessionaire.

Financial Support outlined in Addendum 16

Based on the analysis above, it was determined that Government would need to provide some financial support to the Project under the Concession, however a specific quantum of financial support would not be specified in the Addendum (16). Bidders were reminded that whilst they could stipulate the level of support within certain parameters to ease any funding gap they may foresee, an important factor in the evaluation for the award of the Concession was the provision of the highest net positive cashflow (in NPV terms) to BVIAA, subject to the Bidder meeting the technical, operator and other requirements of the Addendum 16.

Lack of Progress made by existing bidders on Addendum 16

Details of the procurement process and the status of Addendum 16 are set out in the following section and was previously summarised in the Executive Summary. As at the date of this report, bidders have not demonstrated willingness in one instance or capability in another to undertake this Project via a Concession Model. It is likely that going out to a wider market would take significant time and would not result in a viable Concession. A number of competing airport concession projects in the region (e.g. Hewanorra – St. Lucia and Sangster, Jamaica) increase the challenge for BVI to attract investors under a concession model. The primary reason is that these airports both have existing traffic volumes that support a concession, and higher volumes of traffic to increase the commercial attractiveness to private investors. As indicated above, it is very likely that BVIGOV would have to provide financial support to private investors under a Concession (due to the uncertainty and lower volumes in initial years – see table below) while also relinquishing elements of control of the airport over a relatively long period.

In May 2015, consideration was given to offering a larger initial financial subsidy to the concessionaire, in order to enable a project IRR of 12% to 15%. The estimated injections are presented below:

	SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4
	Base Case Volumes; Current Prices/Fees	Base Case Volumes; Proposed Prices/Fees	Low Case Volumes; Current Prices/Fees	Low Case Volumes; Proposed Prices/Fees
Injection required to achieve:				
15% IRR	(61,886,645)	(40,823,284)	(103,506,959)	(88,519,789)
12% IRR	(22,591,726)	-	(84,138,696)	(63,094,247)

Therefore, as presented in the table above, in order to enhance the commercial viability under the concession approach, analysis indicates an injection in the region of $63M to $103M is required under the Low Case volume scenarios, depending on the fee schedule and IRR considered.

It was envision that any support of the nature highlighted in the table above would have to be negotiated and structured in a manner to ensure it is beneficial to government regarding ownership control and profit sharing, either under a Joint Venture approach or otherwise.

Option 2 – Design Build (Finance)

Given the levels of financial support required for a concession to be commercially attractive under the Low Case traffic scenario and given the lack of progress of the existing bidders, it was deemed prudent to conduct further analysis or to give more active consideration to affordability under the more conventional Design-Build-Finance (DBF) approach.

The potential support under the DBF model is outlined further below.

The financial support required under the Design/Build/Finance approach in the form of the projected net cash flow shortfalls of the expanded airport have been estimated. In this scenario no adjustments have been made in respect of excluded assets. The shortfalls which arise in certain years based on the result of projected BVIAA revenues post-expansion minus projected operating expenditure including life cycle/maintenance costs and projected debt service costs, i.e., total projected revenues minus total projected expenditure.

It has been assumed that a reduction in the construction costs would be achieved by Government and that 100% of an estimated $152.5M in capital costs (runway and limited terminal upgrade) will be borrowed by BVIAA with a guarantee from central government. (See next section for affordability considerations).

A relatively conservative interest rate of 4.5% is assumed and a repayment duration of 20 years, with a moratorium on interest for the first 2 years (based on precedence with BVIGOV borrowing). It is possible that lenders may not provide 100% financing but require an 80/20 or 90/10 debt/equity structure, however initial lender feedback and precedence on the port project suggests close to 100% financing would be possible once guaranteed by BVIGOV. A summary of the Scenarios considered under this Design Build (Finance) approach is summarised as follows:

		Scenario 1 Base	Scenario 2 Low
1	Source of Traffic Forecast	Boyd	20% below Boyd Base
2	Level of Traffic	Base Volumes	Conservative
3	Fee level	Proposed	Proposed
4	BVIAA Optimisation	3,000,000	2,000,000
5	**Debt Assumptions**		
	Loan amount	152,500,000	152,500,000
	Interest rate	4.5%	4.5%
	Moratorium on principal	2 years	2 years
	Tenor	10 years + 10 years	10 years + 10 years
	Amortisation	20 years	20 years
	Loan start date	July 2016	July 2016
6	Debt to Equity Ratio	100% Debt	100% Debt

The shortfall or total subsidy required from Government based on BVIAA projected revenues minus all projected expenditure (including debt servicing of a $152.5M loan) is provided on the subsequent page assuming the $152.5M is fully financed via debt.

SCENARIO		Cumulative Shortfall	NPV	IRR
1	**Base Case**	**$ (18,018,286)**	**600,545,690**	**12.7%**
2	**Low Case**	**$ (38,636,695)**	**384,968,422**	**10.2%**

The net cash flows on an annual basis is provided in further detail below, as the summary above provided an aggregate of the shortfalls that would have to be met by BVIGOV over the initial years.

Year	Scenario 1	Scenario 2
2016	(1,090,834)	(2,675,739)
2017	(7,017,752)	(8,037,752)
2018	(6,532,898)	(10,141,475)
2019	(3,376,802)	(8,902,142)
2020	4,436,807	(3,026,600)
2021	4,080,210	(3,645,364)
2022	5,791,523	(2,207,623)
2023	7,812,116	962,256
2024	8,401,219	1,304,868
2025	10,301,143	2,954,976
2026	9,846,579	2,242,734
2027	10,720,171	2,846,472
2028	10,377,685	2,227,113
2029	15,659,522	7,221,920
2030	17,132,463	8,391,210
2031	13,154,195	4,954,265
2032	13,808,661	5,314,800
2033	20,942,904	12,161,319
2034	21,515,625	12,418,064
2035	25,115,481	15,694,997
2036	26,711,631	16,967,859
2037	25,961,460	23,878,178
2038	25,961,460	25,062,311
2039	39,751,019	28,924,937
2040	41,415,742	30,201,026
2041	43,116,024	31,503,404
2042	44,904,853	32,876,464
2043	41,137,371	28,677,988
2044	43,920,495	31,015,960
2045	46,898,173	33,532,187
2046	48,111,918	34,267,565
2047	54,931,777	40,591,469

As indicated, under the Base Case volumes of Scenario 1 and 2, the Project may be considered self-sustainable with limited support required from BVIGOV during the first four (4) to seven (7) years in the form of subsidies to cover the net losses/shortfalls.

The projected net cash flows above do not include any subsidies from Government, therefore the shortfalls represent the total estimated annual subsidy/support to the Project or BVIAA required from BVIGOV. Accordingly, since the current levels of subsidy amount to approx. $3M annually, the annual incremental impact to central government would amount to the shortfalls displayed above minus $3M.

It is also important to note that several sensitivities or factors can increase or decrease the levels of support likely required by government. These include but are not limited to:

- the levels of passenger traffic;
- actual fees implemented by BVIAA,
- staggered increases in certain fees to minimize shortfalls if demand elasticity permits same,
- life cycle costs / maintenance timing (the shortfalls in the latter years after periods of no or reduced shortfalls are primarily due to life cycle costs),
- retail and FBO fees/revenues,

- the cost of any rebates required from airlines at least in the earlier years until demand is more certain,
- sourcing additional revenues that can be hypothecated to BVIAA, such as new or increased hotel taxes
- the negotiated debt structure and terms, and
- the final capital cost (after value reengineering from bidders etc).

The scenarios above also indicate the importance of BVIAA increasing fees as recommended by WSP and the BVIAA Board, and elimination of the current subsidy levels of $3M by the introduction of revenue enhancement and cost savings measures, i.e., optimization (“Opt”).

It is important to note that the “high” scenario presented above does not include the” high” passenger volumes forecasts prepared by Boyd and reflects the baseline scenario previously outlined herein, as well as the low based on Louis Berger’s analysis - in order to be somewhat conservative throughout all financial analyses.

The Financial Case

Policy context

The essence of the BVIGOV business requirement (further detail is provided later) is facilitate landings by larger aircrafts in the BVI via a new expanded runway and minimal upgrades to the terminal building (as required) utilising a procurement model that considers and is consistent with the Protocols for Effective Financial Management.

The Protocols make specific reference (paragraphs 13-20) to PPP Arrangements and Debt financing arrangements and set out a number of matters to be addressed.

In particular the Protocols require that a PPP arrangement must only be considered where:

1) "There is a sound appraisal underpinning the proposed project before financing means have been determined
2) Where a financial appraisal has demonstrated improved value for money against a conventionally financed alternative
3) Where the long term affordability case has been assessed by the Government of the Virgin Islands
4) Where the correct accounting treatment of the public accounts has been utilised and agreed upon by an independent qualified accountant, and
5) Where the Government of the Virgin Islands commission external and independent technical advice on the project, such as in terms of accounting, legal, financial, economic and environmental implications."

The BVIGOV has carefully considered the funding of the Project via alternative funding mechanisms as well as from within its own resources. The results of this analysis were described in the previous section.

The conclusion is that having tested the market for a possible concession and having taken into account the magnitude of the funding required, the projected cash flows of the project, the overall commercials of the project, importance of long-term ownership and environmental impact considerations, the current debt levels of the central government including guaranteed debts for state enterprises, the macroeconomic considerations including adverse economic impact of not doing the project, and the fiscal targets of the BVIGOV, it would be best to undertake the project via traditional financing. All of the aforementioned analysis over several months did not result in a clear case where a PPP arrangement would necessarily result in "improved value for money against a conventionally financed alternative".

For Debt Financing, the Protocols require that:

"Unless in exceptional circumstances where different arrangements are agreed in writing by the Government of the Virgin Islands and the Secretary of State, the Government of the Virgin Islands will borrow only to fund capital expenditure where:

a. The proposed project is forecast to yield sufficient revenues to fund the additional debt service costs; or
b. The Government has sufficient surplus operating cash flows to fund the additional debt service costs which arise from borrowing to finance such capital expenditure.

With respect to ("a") above, the detailed cash flow forecasts and supporting analysis of the project conducted by advisors indicate that the proposed project is forecast to yield sufficient revenues to fund the additional debt over the long term. Financial support in the region of $18 million to $38.6 million will likely be required by BVIGOV in the initial years of the project until passenger volumes ramp up. The lower end of the range ($18 million) is due to cumulative shortfalls aggregated over the first four years of the Project. The higher end of the range ($38.6 million) relates to cumulative shortfalls over a seven year period. However, the levels of support required can be reduced if BVIAA introduces various quantified revenue and cost savings measures that have been studied and approved by the BVIAA Board of Directors. Various other measures can also be considered to reduce any government support, such as hypothecation of other revenue sources to BVIAA (for example incremental hotel taxes). It is also important to note that these shortfalls assume that the existing subsidy of approximately $3 million per annum by BVIGOV to the BVIAA will be eliminated by the optimisation measures proposed by the BVIAA. Therefore, the range of $18 million to $38.6 million represent the total subsidy to be provided by BVIGOV in initial years stated. The range reflects the high and base scenarios which both assume proposed fee increases by the BVIAA will be implemented.

Regarding ("b") above, the government's projected operating cash flow is currently being finalized under the framework of the MTFP.

The Protocols further state that "to ensure that the level of debt is affordable and consistent with the delivery of macroeconomic and fiscal sustainability and financial stability in the short, medium and long term as outlined in the MTFP, the Government of the Virgin Islands will comply with the borrowing limits defined in Annex B no later than the date specified in paragraph 2 of Annex D."

The borrowing limits state the following:

- Net Debt ≤ 80% of recurring net revenue;
- Debt Service ≤ 10% of recurring net revenue; and
- Liquid Assets ≥ 25% of recurring expenditure

In this instance, it is proposed that BVIAA would serve as the borrower for the Project's financing. BVIAA's risk weighting under the Protocols is 50%. Therefore, approximately $76 million (based on the estimated construction cost of $152.5 million) in estimated borrowings would be included as additional Net Debt under the Protocols.

The relevant excerpts from the MTFP which include the broader fiscal measures to be implemented, as well as impact of the financing of the airport expansion by the BVIAA on the BVIGOV's fiscal position are provided below:

MTFP Fiscal Strategy

Notwithstanding additional fiscal pressures from the provision of universal health care and improving the reliability of our water network the objectives of our fiscal strategy for 2016-2018 remain the same. We aim to maintain a positive recurrent balance by increasing revenue and encouraging expenditure efficiency, while contributing to our Reserves. Specifically, we continue to pursue the following objectives over the medium-term:

1. Maintain the recurrent surplus balance by implementing revenue generating and expenditure efficiency initiatives;
2. Build the Reserve Fund balance as a means of buffering public finances from unexpected future shocks;
3. Manage our pension liability; and
4. Maintain the borrowing ratios within limits outlined in the Protocols for Effective Financial Management.

Revenue generating initiatives

The revenue generating initiatives which BVIGOV plans to implement in the medium-term are:

2016

1. Change the current Work Permit structure such that the fees will reflect improvements in efficiencies of the Labour department and be more aligned with fees charged in other Overseas Territories;

2. Reverse the charging of import duties on FOB rather than CIF value[4];

3. Change water rates to be more closely aligned with increased cost of purchasing and distributing water;

4. Revise the current Property Tax rates with the vision of moving towards a market-based assessment of property taxes; and

5. Continue a more aggressive approach to the collection of current taxes and fees and arrears[5] by reviewing current legislation to give revenue collecting agencies greater authority to enforce compliance.

2017

1. Adopt a modern more progressive payroll tax system to promote equity while maintaining the simplicity of the current tax structure; and

2. Review and revise the current marine fee structure by consolidating existing fees and creating a collection system that is fair and easy to monitor.

It is envisaged that these revenue initiatives will be brought on stream between 2016 and 2017, and amass approximately $8.3 million in additional revenue in 2016, $26.3 million in 2017 and $27.4 million in 2018[6].

Encouraging expenditure efficiency

Alongside generating increased revenue and ensuring compliance with the Protocols, we recognise the importance of improving expenditure efficiency. As such, we are committed to prioritising expenditures, implementing a cash management framework, and improving procurement and project management practices to ensure that the people of the Territory are receiving value for money in the way we conduct business on their behalf.

1. Managing the Public Service to improve performance and enhance efficiency and effectiveness in the delivery of services to the public. The new performance management system sets out clear individual objectives and enforces accountability while identifying areas for skills

[4] Amendments have been made to the Customs Management and Duties Act (2010) and the positive effects of this policy will affect revenue in 2016.

[5] The value of arrears has not been explicitly included in the fiscal strategy model.
[6] See Appendix for detail breakdown of revenue initiatives.

assessment and development. Fostering greater linkages between performance and remuneration in the form of increments ensures that those who excel within the public service are adequately recognised while managing expenditure on personnel emoluments.

2. Offsetting the Cost of Goods and Services by reviewing and revising the Government's current fee structures with a view to closing loopholes, ensuring that fees at least cover the costs of providing services. This will assist in reducing Government's significant subsidisation of public goods and services. For instance, revising the fee structure for water rates, as mentioned above will assist in offsetting some of the costs associated with purchasing water and modernising the water distribution network.

   As we continue our efforts to contain costs of goods and services we remain committed to improving the procurement and project development and assessment processes. The Ministry of Finance continues to play an active role in monitoring all capital projects executed by Central Government from a cost and quality perspective. This ensures that the Government receives good value for money when purchasing goods and services. Budget monitoring will begin in earnest in 2016 and will help to identify areas of overspending and assist in curbing the need for supplementary appropriations except in emergency circumstances. In addition ensuring that programmes are appropriately prioritised and costed during the more rigorous multi-year budget preparation process is expected to yield efficiencies and savings.

3. Improving financial management of parastatals. Implementing a framework which monitors the financial and operational performance of all parastatals is an integral part of managing the growth of transfers and subsidies and ensuring that they are achieving the overarching development goals of the Government. The framework will be launched in 2016.

4. Capital expenditure levels depend on the development policy initiatives of the governing administration. To help promote the effective and efficient use of resources on capital projects, we have begun to implement improved project appraisal and assessment processes. This will help ensure that the Government achieves value for money on all projects and forms part of the Government's public financial management reform programme.

5. Preventing 'Budget Creep'. During the 2016 budget process, Ministries and Departments were required to reduce their budgets by 6% based on revised revenue projections. Additionally, Ministries and Departments were required to identify areas of potential savings which are used to offset new spending approved by the Cabinet.

Building our Reserves

Towards meeting the liquid asset ratio requirement of 25% of recurrent expenditure by the end of 2017, the BVIGOV contributed $5 million in 2015, and will contribute $15 million annually to the Reserve Fund in 2016 and 2017. This, in conjunction with managing the growth of recurrent expenditure, will bring the Virgin Islands into full compliance with the borrowing guideline ratios set out in the Protocols for Effective Financial Management, and more importantly offer a fiscal buffer available to the BVIGOV in case of future shocks.

Addressing contingent liabilities

The Government is committed to creating a national pension system. A recent report[7] commissioned by Government outlines the elements necessary for the establishment of such a system. The current civil service pension scheme has placed a burden on public finances, as in 2014 pension payments accounted for approximately 6% of recurrent expenditure. Under the new national pension system all new civil servants will be part of a contributory pension plan. Special provisions will be made for incorporating existing employees into the contributory scheme.

Maintaining the borrowing ratios

The GoVI has been able to maintain low levels of debt and thus, debt servicing while still meeting development imperatives and accessing necessary funding for capital projects. In this way, the BVIGOVI has stayed well-within borrowing ratio guidelines for net debt and debt servicing outlined in the Protocols. With anticipated compliance with the liquid assets ratio by the end of 2017, we look forward to greater autonomy in making borrowing decisions based on the unique context of the Virgin Islands.

Financing the deficit

GoVI has consistently met its debt obligations, and has run overall deficits in the past in order to invest in much needed infrastructural development for the Territory, including roads and ports, the water and sewerage network, and healthcare facilities. It is through these prudent investments that economic growth is fostered, and more importantly, that the quality of life for the Territory's residents is improved in a sustainable manner.

Our Capital Investment Plan over the next three years ($29.5 million -2016, $16 million – 2017 and $22 million – 2018) will be financed through annual recurrent balance surpluses, loan disbursements, and excess unsecured debt/liquid assets[8].

Further disbursement of existing, approved loans, namely the $16 million loan for road rehabilitation, and the $22 million loan for the hospital, sewerage and ports projects will be utilised along with anticipated recurrent funds to finance the 2016 capital investment programme. The expansion of the T.B. Lettsome International Airport is expected to cost $152.5[9] million and commence in 2017. Through loan financing by the Airports Authority, with the requisite approvals, we envision opening the door to increased passenger flow, greater levels of economic activity, and an improved standard of living for the people of the Virgin Islands. Given the fiscal demands of the airport expansion project the 2017 and 2018 capital investment programme will be financed using local funds.

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[7] "Proposed System of Supplemental Pension Plan for the Virgin Islands", Pension Management Interactive PMI.

[8] See definition for unsecured debt/liquid assets in Box above.

[9] Risk weighted at 50% for inclusion in the borrowing ratios.

Medium-Term Fiscal Frame				EST'D	PROJECTIONS		
mn $	2012	2013	2014	2015	2016	2017	2018
Total Revenue	**292.78**	**302.40**	**318.60**	**317.62**	**330.90**	**337.92**	**339.83**
Total Current Rev	292.78	299.10	316.08	314.59	330.90	337.92	339.83
Total Tax Revenue	277.46	281.44	298.46	297.75	313.94	320.78	322.44
Payroll-Inc Taxes	40.80	44.26	47.42	49.48	50.85	52.22	53.59
Property Tax	2.81	2.72	2.66	3.21	3.45	3.61	3.89
Taxes on Gds & Services	195.13	198.07	198.50	196.59	202.16	208.04	208.32
Tax-International Trade	29.60	29.25	33.65	36.18	46.04	48.27	49.16
Other Tax Revenue	9.13	7.15	16.22	12.29	11.43	8.64	7.48
Other Current Revenue	15.32	17.66	17.62	16.84	16.96	17.14	17.39
Grants	0.00	3.30	2.52	3.02	0.00	0.00	0.00
Total Expenditure	**304.71**	**299.71**	**282.75**	**320.24**	**335.84**	**335.58**	**329.46**
Total Primary Expenditure	299.49	295.21	278.59	316.11	331.19	331.31	325.82
Total Recurrent Expenditure	260.60	257.08	252.66	278.28	300.04	308.03	309.11
Total Interest Payments	5.22	4.50	4.16	4.13	4.66	4.28	3.64
Interest payments - Domestic	4.60	3.97	3.66	3.68	3.83	3.35	2.86
Interest payments - Foreign	0.61	0.53	0.50	0.45	0.82	0.92	0.78
Total Non-Interest Recurrent Expenditure	255.39	252.58	248.50	274.15	295.39	303.76	305.47
Employee Compensation	105.98	114.30	113.17	120.22	120.41	122.75	124.74
Goods & Services	65.12	62.22	57.44	67.74	68.60	69.48	69.84
Subsidies & Transfers	61.87	64.52	64.19	67.49	92.31	97.09	96.08
Total Other Expenses	22.41	11.55	13.70	18.70	14.06	14.43	14.81
Total Capital Expenditure and Net Lending	**44.11**	**42.63**	**30.09**	**41.97**	**35.80**	**27.55**	**20.35**
Capital Expenditure	44.11	42.63	30.09	33.97	35.80	27.55	20.35
Net Lending	0.00	0.00	0.00	8.00	0.00	0.00	0.00
Contribution to Reserve Fund	15.02	15.01	7.00	5.00	15.00	15.00	3.00
Total Surplus/(Deficit)	**-26.95**	**-12.32**	**28.85**	**-7.63**	**-19.94**	**-12.67**	**7.37**
RECURRENT BALANCE	32.18	45.32	65.94	39.34	30.86	29.88	30.72
RECURRENT BALANCE LESS RESERVE CONTRIBUTIO	17.15	30.31	58.94	34.34	15.86	14.88	27.72
Financing	**26.95**	**12.32**	**-28.85**	**7.62**	**19.94**	**12.67**	**-7.37**
Net Borrowing	-11.87	-10.66	4.22	11.52	10.95	-14.92	-13.79
Loan Disbursements	0.01	0.67	12.65	22.45	23.43	0.00	0.00
Loan Disbursements - Domestic	0.00	0.00	10.30	20.24	7.46	0.00	0.00
Loan Disbursements - Foreign	0.01	0.67	2.35	2.21	15.97	0.00	0.00
Principal Repayments	11.88	11.34	8.43	10.93	12.48	14.92	13.79
Principal Repayments - Domestic	8.80	8.51	8.32	8.32	9.17	10.80	10.94
Principal Repayments - Foreign	3.08	2.83	0.11	2.61	3.31	4.12	2.85
Unsecured Debt Flow - Change in Cash	38.82	22.98	-33.07	-3.90	9.00	27.58	6.42

Borrowing Limits Ratio Analysis

Through revenue generating and expenditure efficiency initiatives in conjunction with growing our Reserves, we will ensure compliance with the borrowing ratios set out in the Protocols for Effective Financial Management by the end of 2017. Our impressive trajectory for reaching and maintaining compliance and thus ensuring fiscal sustainability is demonstrated below. By 2017 we expect our reserve levels will be over 25% of recurrent expenditure and our debt ratios will be well below the limit.

Borrowing Limits				EST'D	PROJECTIONS		
	2012	2013	2014	2015	2016	2017	2018
Total Disbursed Outstanding Central Gov. Debt	102.26	91.60	95.82	107.34	118.28	103.37	89.57
Unsecured Debt Stock	12.75	35.73	2.66	-1.23	7.77	35.35	41.77
Total Disbursed Outstanding Central Gov. Debt and Unsecured Debt	115.01	127.33	98.48	106.11	126.05	138.72	131.34
Total Disbursed Outstanding Debt of Parastatals	18.85	16.48	41.08	76.19	142.05	211.32	228.16
Total Risk-Weighted Disbursed Outstanding Debt of Parastatals	3.77	3.30	8.22	15.24	43.41	79.76	90.63
Capitalized Value of Public Private Partnerships	0.00	45.00	45.00	45.00	45.00	45.00	45.00
Total Public Borrowing	118.78	175.63	151.70	166.34	214.46	263.48	266.98
Reserve Fund Balances/Liquid Assets	22.47	37.48	44.48	49.48	64.48	79.48	82.48
Parastatals' Interest payments	0.99	0.87	0.79	1.89	4.71	4.42	9.97
Parastatals' Principal repayments	2.25	2.36	2.15	2.14	5.14	5.72	8.16
Parastatals' Risk-Weighted Debt Service	0.65	0.65	0.59	0.81	2.14	3.21	5.57
Total Debt Service of Central Gov. and Parastatals	17.75	16.48	13.18	15.87	19.28	22.40	23.00
Net Debt	96.31	138.15	107.22	116.86	149.98	184.00	184.50
Net Debt as % of Recurrent Revenue (max 80%)	32.90%	45.68%	33.65%	37.15%	45.33%	54.45%	54.29%
Debt Service as % of Recurrent Revenue (max 10%)	6.06%	5.45%	4.14%	5.04%	5.83%	6.63%	6.77%
Liquid Assets as % of Recurrent Expenditure (at least 25%)	8.62%	14.58%	17.60%	17.78%	21.49%	25.80%	26.68%

The Commercial Case

The following is a description of the key events during the procurement process and tender evaluation. It is important to note that the BVIGOV did not appoint independent the current legal and financial advisers until after the initial procurement process was launched. These advisers did not carry out any work in the form of background investigations or financial due diligence on the bidders, except as noted below for one consortium member.

In 2012, BVIGOV assembled a procurement evaluation and negotiation team (the "Original Procurement Team") consisting of representatives from the BVIAA, the Ministry of Finance, Ministry of Natural Resources, independent technical consultant Winston Wilson and Technical advisors Consulmar. The team was directed by the Financial Secretary in the Ministry of Finance as overall sponsor of the project. This team was accountable for the overall direction, management and successful delivery of the Project.

In 2013, the Procurement Team was amended in light of changes to the procurement approach to take into account the skills sets required to explore alternative financing methods. The new procurement team comprise the representatives from the BVIAA, the Ministry of Finance, Ministry of Natural Resources, technical advisers Consulmar and WSP, legal advisors B&M and financial advisors PwC.

It was agreed that all government employees and external advisors had to disclose any potential conflict of interest and the Procurement Team decided who could participate in the various aspects of the procurement process. It was also determined that all contact and engagement between the Procurement Team and the bidders should be channelled through the Procurement Unit at the Ministry of Finance who would be responsible for the practical and logistical management of the exercise.

The Financial Secretary was responsible for providing regular updates to the Minister of Natural Resource, and as directed by him, to other relevant parties such as the BVI Cabinet and Caucus. Consultations were held as necessary on aspects of the procurement with BVI authorities throughout the process.

Overview of the procurement process

Government issued a broad international invitation for expressions of interest and pre-qualification in June 2012 for design, finance and construction services for an intermodal transportation centre including an expansion to the existing runway at the Airport. Through an evaluation exercise Government pre-qualified 5 parties to participate in the next stage of selection in respect of the Airport Project.

Government issued an RFP on 20 August 2012 to the five (5) pre-qualified parties for design, finance and construction services for an intermodal transportation centre including an expansion to the existing runway at the Airport. Subsequently, various tender addenda were issued by Government and certain proposals were received from bidders pursuant to the RFP.

Proposals were received from three (3) such pre-qualified parties on 15 March 2013. Based on its analysis and evaluation of the submitted proposals, Government determined that implementing the Airport Project as then configured was not economically feasible at the time and the scope and Terms of Reference for the Airport Project were revised to include only the key components of the Airport Project (notably the runway expansion). Accordingly, Government issued Addendum 15 in September 2013 to revise the scope of the Airport Project and submissions were subsequently received from the Bidders (then comprising CCCC, IDL and McAlpine) in May 2014.

Following the analysis of these submissions and the financing suggestions made by the Bidders, Government considered its options and gave notice to the Bidders on 30 September 2014 of its intention to change the procurement approach to a Concession based model. The Bidders (all being construction companies) were notified that this would require them to introduce operators and financing expertise into their consortia.

In June 2014, a presentation was made to the BVI Cabinet on the status of the Project and the options available at that time taking into account potential challenges that Government faced regarding the funding of the Project. The funding and procurement options as well as the legal implications were presented.

Government issued Addendum 16 on 5 December 2015 to request further submissions from the Bidders under which the procurement approach was amended to a 35 year Concession based approach involving the financing, design, construction and long-term operation of the Airport. The Addendum (together with the data room) included significant information on the Airport facilities and the current operations and also included the traffic and revenue studies that had been prepared by Boyd and WSP respectively on behalf of the Government.

Addendum 16 set out detailed requirements including an accelerated timeline leading to a Bid Submission Date of 20 February 2015. The Addendum set out various interim milestones for the Bidders such as confirming the consortia composition (including operator), submitting clarificatory questions and attending a site visit.

Although the Bidders attended site visits in January 2015 and subsequent calls with Government and the advisory team, the Bidders had not introduced operators into their consortia or provided detailed financing plans prior to the suspension of the process. During this period, Government has been considering potential amendments to the process, including introducing the hybrid operator model to mitigate the non-availability of independent operators, but has not currently extended the Bid Submission Date or formally amended the process under Addendum 16.

On 12 May 2015, Government notified the Bidders that the House of Assembly was dissolved on 1 May 2015 and a general election was called for 8 June 2015. As is customary practice, during this period the current bidding process was suspended pending the conclusion of the election. The Government indicated that once a government has taken office following the election, it would respond formally to the Bidders to confirm any extension to the Bid Submission Date and any other relevant amendments to the process under Addendum 16.

After exchanges of correspondence with the bidders post-election, in November 2015, meetings and calls were held with the Bidders, to informally understand the status of their interest and participation in the Addendum 16 process. The Government advisory team concluded that:

- The Bidders did not make significant progress in a number of key areas for developing their bids and so far, have failed significantly to meet any of the milestones stipulated under Addendum 16.

- IDL and McApline requested to submit a combined bid. IDL/McAlpine formed a consortium with a third party, The ICA Group that proposed to bring the financing and an operator. Advisors met with this consortium and found no evidence of the ability (past or present) to bring financing and an operator.

- Neither Bidder attracted an operator into its consortia. Although this issue may have been assisted by BVIAA retaining some of the operations (which the Bidders appear to prefer under the proposed Hybrid Approach which utilises BVIAA as operator), aviation sector and operations expertise will still be required by the Bidders to prepare meaningful bids.

- In addition to the lack of operations and aviation sector expertise, the IDL/McAlpine consortium also appeared unclear as to its consortium structure and roles and as to its financing plan.

- CCCC stated that it could make the financing available from its own resources if the structure of the Airport Project is amended to be sufficiently attractive. CCCC indicated that it will not pursue the process under the current concession model.

BVIGOV and its advisors are of the view that going back to the wider market on a Concession basis would take substantial time, and **significant uncertainty exists** as to whether doing so would deliver more capable bidders at this time given the commercials of the project particularly regarding the risks related to unproven passenger volumes. The financial analysis and market sounding conducted by PwC also indicates that BVIGOV would also need to provide assistance to any private investors in the form of financial support during the initial years of the project (see subsequent section).

Therefore, the Concession approach (or other alternative financing approach) was no longer considered a viable funding option for the project, particularly since a clear case for enhanced value for money over conventional financing approaches could not be made based on all analyses and considerations to-date. Accordingly, subject to final affordability deliberations, the Design Build (Finance) approach is recommended.

In December 2015, a decision was taken to revert to the Design Build (Finance) approach. In March 2016 Addendum 17 was issued to the two bidders and on May 6, 2016 two bids were received from the bidders ranging in price between $153.4 million and $198.9 million. An evaluation of the bids was conducted by a team of independent advisors including Consulmar, Baker & McKenzie and PwC. The bid evaluation report was submitted to the Central Tenders Committee and Cabinet for consideration.

Overview of the key risk factors considered

The table below sets out the key factors that have been considered when evaluating which of the options to pursue. For a detailed analysis of each of these risk factors, please refer to the Appendices for the B&M paper "Status and Issues for the Government on the Addendum 16 Concession Process".

Factor	Impact
Affordability - *the ability of Government to provide financing or other financial support for the Airport Project*	**CRITICAL - LIMITED FLEXIBILITY**
Transaction risk - *the likelihood of attracting bids and implementing the Airport Project with the current Bidders or with new bidders*	**IMPORTANT**
Value for money, competition and commercial leverage - *the level of competition and resulting commercial leverage*	**IMPORTANT**
Project risk transfer - *the ability of Government to transfer key risks in the delivery of the Airport Project, including demand risk, construction and operation risk*	**IMPORTANT**
Government reputation - *the potential reputational impact*	**MANAGEABLE**
Government control - *the available control for Government/BVIAA over the assets and operation of the Airport during the term*	**MANAGEABLE**
Procurement law position and risk of challenge - *the risk of legal challenge arising from the current process and any change to the process*	**MANAGEABLE**
Time for completion - *the time for completion for the process through to award stage*	**MANAGEABLE**
UK approval - *the ability to secure UK approval*	**IMPORTANT**
Complexity of process - *the complexity of bidding, negotiating and signing the project documents and then implementing the Airport Project*	**MANAGEABLE**

The table below describes some of the key factors and their application to a concession, design build and joint venture model. These are only some of the factors for illustration and the table following indicates a broader range of factors, colour coded by significance for each of the options.

	CONCESSION	**DESIGN BUILD**	**JOINT VENTURE**
Affordability	No upfront capital expenditure as Concessionaire raises financing Financial support by Government still required at least for a fixed period and subject to overall cap Concessionaire retains revenues from the operating airport (subject to any negotiated profit share)	Government / BVIAA to raise financing for full capital expenditure immediately - provided it is affordable for Government Treatment of loans / guarantees on Government books to be considered and mitigated Government / BVIAA retains all revenues from the operating airport	Potential sharing of upfront capital expenditure as JV raises financing Effect of Government contribution or guarantees on Government books to be considered and mitigated JV receives revenues from the operating airport and JV partners to share in profits (and take risk of losses) in agreed proportions
Government control	Certain control mechanisms to be included in Concession, but	Government retains control of the asset	Certain control mechanisms to be included in joint venture

	significant transfer of operational control in favour of concessionaire for 30 years Some limited control with hybrid model if BVIAA operates		arrangements but reduced levels of control for Government for duration of JV
Value for money	Potential value for money if Concessionaire can bring competitive financing for runway expansion and operational expertise to improve performance of airport Profits to Concessionaire subject to any profit share	In theory, financing costs should be lower Overall long term profitability for Government depends on BVIAA's performance	Potential value for money if JV can bring competitive financing for runway expansion and operational expertise to improve performance of airport JV partners to share in profits (and take risk of losses) in agreed proportions
Complexity of process and transaction risk	Complex but process underway Ability of current Bidders to deliver financing and operational capability is questionable	Simple process Current Bidders have the required technical capability	Complex process Ability of current Bidders to deliver financing and operational capability is questionable

Risk assessment of the various options

	OPTION 1 - CONCESSION			OPTION 2 - DESIGN & BUILD	OPTION 3 - TERMINATION	
	(a) No change	(b) Hybrid & increased support	(c) JV concession		(a) Abandon Project	(b) Alternative new process? e.g. privatisation
Affordability						
Transaction risk						
VFM, competition & commercial leverage						
Project risk transfer						
Government reputation						
Government control						
Procurement and risk of challenge						
Time for completion						
UK approval						
Complexity of process						

Impact Key: **High** **Medium** **Low**

Technical Considerations

In addition to the legal and commercial advice previously described throughout this OBC, BVIGOV has undertaken significant technical analysis in respect of the Airport Project. A list of technical studies performed and available reports is provided below:

Technical

- Strategic Plan and Master Planning Services **- Louis Berger Group**
- Runway Extension Impact Assessment – **Kraus Manning Inc**
- Runway Options Review Study – **IATA**
- Review of Airport Development Options – **BVI Airport Authority**
- Feasibility Study for Approach RWY 07/25 - **BVI Airport Authority**
- Expanded Geo-technical study – **GeoTech Associates, Ports and Marine Services**
- Hydro-dynamic Modelling to determine flushing and Environmental mitigation measures – **Consulmar, Aquaveo, Commercial Life Services, St.Gean Engineering**
- New Navigation Plan-due to Installation of RESA (ASSI) – **Davidson Limited, verified by American Airlines**
- Final Embankment Design including Hydraulic Passages for water renovation - **Consulmar**
- Conduct Environmental Impact Assessment – **Kraus Manning Inc**

Following the decision to prepare Addendum 16, WSP were also engaged to provide technical input mainly in respect of:

1) Potential life cycle costs that a concessionaire may incur over the life of the concession
2) High level performance specifications that should be required of the concessionaire over the life of the concession

Under the Design Build (Finance) option, BVIGOV has given consideration to further technical work to reduce the cost of the runway extension by reassessing the design specification and the minimum runway length. Based on work performed by Consulmar and discussions with Boyd, there is limited design changes that can be made that will not impact the airline traffic. The main cost that could potentially be reduced is the price of rock which based on regional comparative is more expensive in the BVI.

The Management Case

Key next steps

The following are the key next steps which need to be undertaken as at the date of this Outline Business Case:

1. Selection of a bidder contingent on securing financing

2. Final consideration and determination of measures to assist with funding the project, such as hypothecation of revenues from non-airport sources (e.g., new hotel taxes for example) to the BVIAA, reduction of costs by assessing cost of local rock etc

3. Securing funding for the project including negotiation of terms

4. Approval of BVIAA's Draft Business Plan focused on revenue optimization and cost savings towards elimination of the current subsidy from BVIGOV (draft plan already prepared; to be finalized and approved by Cabinet)

5. Preparation of Draft Full Business Case for BVIGOV approval, inclusive of updated inputs from tasks above

6. Submission of Final Full Business Case for UK FCO approval

Appendices