



GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministry of Finance Headquarters

Ministerial Statement

To the House of Assembly

By

The Hon. Everard T. Richards, JP, MP

Minister of Finance

Government Guarantee Desarrollos Hotelco Bermuda Ltd

Date: 12 May, 2017

Mr. Speaker, in accordance with Section 2 AA (3) of the Government Loans Act 1978, I rise this morning to inform this Honourable House of the pending execution of a Government Guarantee on behalf of Hotelco Bermuda Holding Ltd, part of the Desarrollos Hotelco Group in relation to loans to finance the development costs & related expenses associated with the construction of the proposed St Regis Luxury Hotel, Casino, Spa & Golf Resort in St. George's. This is indeed a historic project for the tourism industry, the St. George's community and Bermuda as a whole.

Mr. Speaker, Honourable Members may recall that the Government of Bermuda has a Master Development Agreement (MDA) with Hotelco Bermuda Holding Ltd., a part of the Desarrollos Hotelco Group. Following intense negotiations, a ground breaking ceremony was held on May 4th 2017.

Mr. Speaker, Government has supported the financing of this project by committing to provide a guarantee of up to \$25 million for an estimated project cost of \$150 million. This support is tangible evidence of Government's commitment to the redevelopment of the tourism sector. We

reiterate our belief that there are many factors surrounding the decline in our once preeminent industry. One of the key factors is the investment piece: the ability to promote a value proposition for investors in Bermuda hospitality. The financial closing for this project is real world success in that objective.

This project will provide jobs for Bermudians in the construction phase as well as jobs for Bermudians once the facility becomes operational.

Mr. Speaker, the Guarantee provides that the Government cannot be legally required to fund more than \$25 million to repay the lender if Hotelco Bermuda Holding Ltd is unable to perform their obligations to the lender. The financing being guaranteed is provided under a loan facility maturing in fifteen years.

Mr. Speaker, I am pleased that a local financial institution has shown confidence in the project and the tourism sector and Government is delighted that they could assist in making this happen.

Mr. Speaker, it is generally not the policy of the Ministry of Finance to issue guarantees to the private sector unless the matter is of national importance. However, until recently, the island has not seen a new hotel development for some time and the Government strongly supports this Project and the economic benefits that it will bring to Bermuda. With the hosting of the America's Cup we must do even more to attract local and foreign capital to our shores to develop our tourism product. At a Tourism Summit held a few years ago in Bermuda it was noted that our competitors are doing a great deal to attract financing for hotel projects, some Governments are going so far as to guarantee the debt in order to finalize the acquisition of the required financing for the project. This is exactly what we have done in order to ensure this development materializes.

Mr. Speaker, it is also important to note that the Government will be compensated for providing the guarantee. Also of significance is the fact that initially the developer will be investing their own equity capital in the project thereby delaying the exposure of Government.

Mr. Speaker, to be clear, the Government guarantee is in relation to the bank loans and not the developer's equity, therefore the Government's actual contingent liability only exists in line with the Banks loan. The funding arrangements for the project are as follows:

- The first \$30 million of the project cost will be funded with equity capital;
- The next \$120 million will be funded evenly between equity and the bank loan;
- 60% or \$90 million will be funded with equity capital;
- 30% or \$60 million will be funded with a bank loan
- The Government's guarantee is limited to \$25 million of the bank loan.

Mr. Speaker, the proposed 122 room St. Regis Bermuda will be the first significant hotel development in St George's for decades and will present many opportunities for local residents and businesses to participate in an invigorated tourism industry in the East End of the Island.

Thank you, Mr. Speaker