

Hello Senators and fellow Virgin Islanders. I would like to thank you all for inviting me to speak today.

My name is Kirk Boeger. I have called the Virgin Islands home since 1991. I am quite familiar with all of the islands, as I lived on St. John for nearly a decade before moving to St. Thomas, and have also visited St. Croix many many times over the years. I find all of the islands to be wonderful, each having its own unique qualities. I am here as a caring Virgin Islands resident, in an attempt to use the area of my expertise in how to benefit the Virgin Islands. As the owner of Real Solutions Real Estate and Management Services, I have seen specific shortcomings in our government, specifically in its collections of Hotel Tax. But as a former employer used to tell me "Don't give me problems, give me solutions." And that is why I am here.

As you all know, the Virgin Islands currently collect a 10% hotel tax. This is supposed to be for all rentals of 90 days or less, and it is a tax passed through to the guest. It is not a tax upon the owners of the property. What many of you may not know is this is not just for hotels, but also includes all rental properties. I would also like to stress that taxes such as this are very common other tourist destinations, and hotel tax is not considered a hindrance for attracting visitors to the Virgin Islands.

Let's go back in time a little bit: Back in 1995, after Hurricane Marilyn and its widespread damage, many of the hotels closed down for repairs. For example, on St. John, the only two hotels (Hyatt- which is now the Westin, and Caneel Bay) existed, and both were closed for at least two years. What I personally saw happen was not all bad, as sometimes a disaster leads to improvements. I saw St. John develop into a villa rental island. Damaged homes were bought up by knowledgeable folks who fixed them up and then put them on the rental market. Since there were no hotels to house visitors, this was a necessity, and it helped to save a struggling economy. I can only imagine STT and STX had similar developments with the increase of rental homes, but my firsthand knowledge on this came from STJ. So the question we have now: Is the Virgin Islands capitalizing as it should with regard to the vacation rental homes and condominiums on all of the islands?

The answer is a very firm NO.

Why?

Because only a small percentage of owners actually collect and pay hotel tax. It is also very likely that some of those who do collect such do not pay it to the Government, but instead put it in their pocket. I

am unaware of any sort of hotel tax compliance in place by the Virgin Islands Government upon owners of rental properties. If there is anything in place, it is doing an absolutely horrible job at enforcement.

Let me explain how I know this:

The increased popularity of the internet over the last ten years has changed the ways and means to effectively advertise a property. There are now many websites that have replaced the previously popular large rental companies. So instead of having these big pretty brochures showing pictures of homes, you can now view them on the internet. Everything from detailed descriptions, to photos, to calendars, rates, and reviews.

So what we now see is that owners of Virgin Islands properties are able to manage their properties, on their own, from a distance. For example, a New York resident that owns a vacation rental villa on St. Thomas can effectively field online or telephone inquiries from potential guests, send them a rental agreement, collect their funds, and rent them their house, all from New York or anywhere else in the world. The money may never see the Virgin Islands, and that is happening at an alarming rate.

How do we know if these owners are collecting hotel tax? That is the easy part. We can simply view their rates in their online advertisements. But even if they advertise hotel tax, it doesn't necessarily confirm that they are collecting the tax. Why do I say this? Because I have been told by potential guests of my properties that other owners are willing to waive the hotel tax. This is a ploy to discount the rental, and it is a competitive advantage they are giving themselves over the legitimate businesses and owners like me. As further evidence, I have contacted owners in the past and been told the same.

How about owners that are collecting the hotel tax? How do we know they are paying it? My guess is that can only be confirmed thru IRB. But let me state that I have no doubt there are owners collecting hotel tax, yet not paying it to the IRB. Why do I say this? I have a perfect example: I was contacted by a Stateside resident who was soliciting his services to "manage" homes and condominiums in the Virgin Islands for owners. This person bragged in his email how he is able to keep his home booked all of the time, basically proclaiming himself as the internet booking guru. It just so happens I knew who this person was, as he had previously asked about my companies ability to manage his home. We did not take on that job, but I remembered his name, then saw links to his home to confirm it was him. So I decided to play along, and I asked him for the specifics of what he could offer. One of my questions was about collection of funds, including the hotel tax, and whether he is able to pay it for me. Not surprisingly, this owner, who charges hotel tax for his own rentals, had no idea how to pay hotel tax and would not be able to do it for my property if I used him as a manager. He was willing to send me the amount paid by the guests since I was asking, but was not able to pay it for me, even if collecting the

funds. Well, my deductive reasoning makes it easy to know that he is not paying his own hotel tax despite collecting it.

But I get ahead of myself. The biggest issue we have is owners not even collecting the hotel tax. That is by far the most damaging issue that I am discussing today. I will get to this issue after describing how I have found such information.

VRBO:

VRBO stands for "Vacation Rentals By Owner." It is a HUGE website, with a very significant amount of Virgin Islands property owners utilization. They basically provide the website and access by the general public to the "listing" of the property owner. VRBO collects an annual payment from each property owner in exchange for the listing. No booking fee or commissions are paid, it is simply a yearly fee, with other options to "upgrade" your listing to attract more viewers.

The site separates the entire world, and you can simply look at a map of the world and click on the area of your interest. Once to the Caribbean, you can then isolate the Virgin Islands. Once to the Virgin Islands, it separates not only by island, but by Estate or condominium development on each island. So it is easy for a potential guest to find exactly what they are looking for in a short amount of time, based upon location.

You can then "click" upon the various listings to read detailed information, view photos, see rates, and check availabilities. You can also read past reviews and information about the owners. Telephone numbers are included, but there is also a simple way to email the owner to ask them questions, provide the dates you would like, and then an inquiry is sent via email to that particular owner.

To see whether an owner is charging hotel tax, you would simply need to look at the rates section. This is very simple, but is done one property at a time.

What did I find from my VRBO research?

I chose Sapphire Beach Resort as a test sample. I specifically chose Sapphire Beach Resort because I do a lot of rentals there, and I know that many owners of condos at the resort utilize VRBO for their bookings.

At the time I did my sample (which was about a year ago), there were 44 properties posted for rent on the website for just Sapphire Beach Resort. Of these 44 properties, 14 of the properties collect hotel tax, whereas the other 30 properties make no mention of hotel tax. This equates to less than 32%

compliance at charging hotel tax. However, it does not mean that each of those collecting is actually paying the hotel tax.

On VRBO, owners list contact information for the rental booking. Of the 44 properties, only 3 of the 44 properties had a local 340 area code for contact information. That is less than 7%. I find this quite symbolic, as the person with the contact information is typically the one collecting the money, probably in each and every case. I also find it highly unlikely that even the owners collecting hotel tax are actually mailing in their payments. It also calls into question whether any VI generated income is being paid to the territory, and would instead be paid to the State in which they live.

So I just went on again this last Friday, and counted a total number of 116 listings under the Sapphire Beach category, which includes Sapphire Village and Crystal Cove along with Sapphire Beach Resort. That is a lot of listings!!!!

If I were to extrapolate the same percentage of those charging hotel tax, that would mean we have only 37 properties collecting hotel tax, with 79 not even collecting the tax. Just at this one location. My experience with annual revenues would estimate an average revenue for each of these condos at \$25,000 per year.

$79 \text{ properties} \times \$25,000 = \$1,975,000 \text{ in revenues} = \$197,500 \text{ in Hotel tax not being collected}$

That is still going under the assumption that those collecting are actually paying, and I know that isn't the case. The figure would be considerably higher otherwise, probably about \$250,000.

Now, \$250K may not sound like a lot of money. But let me make it clear, I am speaking only about Sapphire Beach Resort. Let me also clarify, this is only those I could find easily on VRBO, but there are many other websites for advertisements of rentals. I believe there are about 175 condos at Sapphire Beach Resort alone, and probably more than that at Sapphire Village. Add in Crystal Cove, and we are probably talking about over 400 condos just in that one location. Knowing this, it would effectively increase the number of non-payers to at least 250-300 properties in total just in this one little area. So my best estimate on this one "neighbourhood" alone is more like \$1M. That is starting to get pretty significant, especially considering this one area is just a tiny percentage of rentals on the islands.

Remember, Sapphire is mostly studio condos. The large homes collect much higher revenue. So missing their hotel tax is a big deal. Many of the homes charge at least \$1000 per night !!! I would estimate many of the homes generate between \$75K - \$150K in revenues each year. At \$100K in revenues,

assuming the owner doesn't pay hotel tax, we are talking about \$10K for each home. There are hundreds, if not thousands of homes for rent within the territory.

Without significant research, it is difficult to put an estimate on what is missing from hotel tax. But I would not be surprised if the VI is missing collections for upwards of \$20M per year from hotel tax alone, and the figure may even be higher.

Licensing and Illegal Property Managers:

As you would have assumed, as the owner of a RE company, I pay licensing fees each and every year. I don't know the revenue generated each year thru all licensing in the VI, but imagine it would be quite significant. But it would be more significant if we didn't have so many illegal property managers.

My understanding, through the Department of Licensing, is that all property management must be licensed thru a Virgin Islands broker with a current license. That is so far from the truth, and it is not what is happening.

I would like to read a posting from the Sapphire Beach Resort owners website, as an example:

READ THE POSTING FROM THE SAPPHIRE WEBSITE ABOUT THE PROPERTY MANAGER

READ THE EMAIL DOCUMENT INQUIRY FOR BOOKINGS

How does this affect the Virgin Islands economy? Well, I can absolutely state that I lose significant business to unlicensed managers. Obviously the VI Govt does not receive licensing fees, and that alone is not only a significant amount of income, but also a protection against consumers in the Virgin Islands. But this cannot just be quantified by the lost revenue from lack of licensing fees. These illegal property managers also do not pay gross receipts from money earned doing their work like a legitimate business. And I would be willing to bet that most, if not all of them, do not even pay income tax on such earnings. And if they aren't doing things legally in this respect, you can bet they aren't paying hotel tax on the owner's behalf, either.

But you know how else it effects the VI? It affects the legitimate business owners. You are missing out on gross receipts that I would earn if I were not having to compete with non-tax paying people. You are missing out on the hotel tax I would generate and pay by allowing competition with non-tax paying people. And you missing income tax that would be paid by legitimate property managers that lose business to these illegal property managers.

As you can imagine, we are missing out on a large amount of taxes to people flying "under the radar", that are purposely avoiding ever being on the books in the Virgin Islands.

Local Residency vs. Stateside Residency

I bring up this issue for a very good reason. You, as Senators, rightfully do not wish to burden locals with paying even more taxes. And I support your opinions on such wholeheartedly. I do not want my taxes raised further and am upset enough about the increase in gross receipts tax, which has a huge effect on our business and ability to make money. It is the primary reasons I have had enough with competing against illegitimate businesses and property owners that do NOT pay their taxes, effectively allowing them to undercut my pricing.

So I want to make it clear: The issues I am discussing today is NOT directed towards locals. The large majority of these taxes would be paid by tourists visiting the island, and to Stateside residents who own properties in the Virgin Islands that currently do not pay any taxes in the VI except property taxes. Our economy cannot withstand increasing taxes upon those that continually obey the law, and the proposals I am setting forth do not do such. It actually has the opposite effect, in which they can benefit from fair competition.

SOLUTIONS

As I said at the beginning: GIVE ME SOLUTIONS, NOT PROBLEMS. Well, here we go:

First: there are ways to notify owners that they are responsible for paying hotel tax, which should increase compliance on the issue, though it won't totally resolve it. But by publicizing a penalty, interest, and back taxes due, it would likely bring some people into compliance. This could be done by:

- Adding a simple one page letter from the VI government to all real estate closings in the Virgin Islands, so owners would not be able to "plead ignorance" about payment of hotel taxes
- Several PUBLIC NOTICES in the newspaper would serve to officially give notice
- The same one page letter could also be sent to all condo associations to disperse to owners

Second: Identification of owners of properties is very important if you would like to get the highest compliance. There are several ways this could be done, at least in part:

- Property tax database
- Employee reaching out to contact information on websites such as VRBO and HomeAway (another similar site)
- Request list from condo associations

- Request list from Homeowners Associations

Third: After identifying property owners, merge details with IRB to confirm those that are not paying hotel tax

Fourth: A Government employee can inquire about rentals via email, and find out whether hotel tax is being charged. They can also ask that it be waived to see whether the property owner really intends to charge it, or just has it on the site for protection. Lastly, knowing the property, they can compare with IRB whether hotel tax is actually being paid.

Fifth: It can be identified whether an owner is using an unlicensed property manager, simply by making an inquiry and verifying with Dept of Licensing.

Sixth: It can be identified whether such a property manager is paying gross receipts and income tax on their earnings

How I can get you more bookings that you would have not received in the past!

First I want to give you a little history of myself. I lived on St. Thomas back in the late 90's for 5 years and go back for approximately 1 month a year. I have been renting my house www.vrbo.com/201650 for 2.5 years now and have been very successful. In 2011 I have rented it for 260 days all 7-10 day rentals and this is with not renting in October and November. I know everything about the island and can offer 20% discount to your guests on many activities on the island. (please see attachment with some of the activities) Since my house does rent so much I get many inquiries weekly from various different marketing strategies and various sites that I cannot accommodate since my house is booked. I want to take these inquiries and use them to book your house. I want to be clear I am not a management company, I am specifically a booking company that will take 20% of the total booking cost. This is how I work my house and how I would want to book yours. I will always get all money up front and only take checks. (I can customize this if you want to do it differently) Typically I will send the customer the rental agreement and credit card authorization via email. Once the customer sends the agreement and credit card authorization back I will reserve the dates and the customer will then have 10 days to get the check to me. If the check is not here in 10 days from when I get the agreement back I will call the customer to see if it has been sent if it has not I will open the dates back up. (please see example of email I will send customer once they are ready to book. I can change this to meet the needs of the owner if they want to do differently. Here is what I will do:

- Contact the customer from my overflow inquiries within 10 minutes of the inquiry coming in. I have learned that if you get back with the customer quickly there is a much higher percentage of getting the house booked.
- Answer any questions about the villa and the island to sell your house
- Prepare a no refund rental agreement to the customer and a credit card authorization for any damages. These documents will be emailed to the customer. (please see attached examples)

- I will collect all money from the customer and send you your portion within 10 days of receiving the money from the customer.
- Get all information about the customer. Flight info, amount of guests, special requirements of the guests and anything else they require.
- Coordinate with your house manager any requirements of the guests and send spreadsheet updating any bookings and needs of the client. (example attached)
- Update your vrbo and homeaway calendar
- Help with anything I see that needs to be done to your site to drive more business to you house. Obviously there would be no cost for this and hopefully you will get more inquiries yourself.
- Speak to the customer after their stay to see if there is anything that can be improved on your Villa and if they have only good things to say get them to do a review. I will send them a review request from either VRBO or Homeaway. I will make sure if they are going to do a review that they only say positive things about the villa. I think reviews are a major reason I get so many bookings.
- Get you bookings you never would have received in the past!!

Is anyone looking for a great person to manage their property at Sapphire Beach?

While I was away in India for 4 weeks in November, I had Ms. ~~Rebecca Grundy~~ manage 4 properties. She was professional, personable, and reliable. I cannot recommend her enough. She handled all my emails, my phone calls, transactions and kept my calendar up-to-date for both my renters and cleaners. Not only did I find her to be amazing, one of my renters commented about how quickly and kindly she responded to all of the emails and that's why she rented from me.

~~Rebecca~~ said she can provide service for every aspect of the condo rental – from putting up a website listing (i.e. VRBO) to booking the rentals in addition to scheduling and handling the cleaning. She just moved to St Thomas from Chicago and now lives within 10 minutes of Sapphire Beach.

Feel free to talk to me about my experience.

She can be reached at rmgrundy@gmail.com or 563-579-8848.

Thanks,
Sheila Morrison
773-218-8826

VRBO Listing #	Address	Owner Name	Hotel Tax?	Vl Residency?	Telephone #	Other Properties
60518			N	N	504-458-8933	N
96451		Peter Rosenbaum	N	N	516-445-7733	N
11171			N	N	203-268-2291	N
111678			N	N	631-586-9194	N
113630			Y	N	702-528-7800	YES
117187			N	N	917-447-6513	N
120140			Y	N	603-321-2966	N
120968			N	N	203-758-1356	N
121575			N	N	860-614-3698	N
135336			N	N	781-760-7635	N
145703			N	N	203-452-0505	N
164885			N	N	917-680-3370	N
183205			Y	N	773-218-8826	YES- #200019
199374			N	Y	860-733-2611	N
200019			Y	N	773-218-8826	YES- #183205
216218 E202			N	N	319-389-0998	N
225337			Y	N	847-392-7369	N
239824 E301			Y	Y	340-998-1505	N
239952			Y	N	413-535-0355	N
264710			Y	N	703-395-1952	N
265617			Y	N	203-895-7630	N
267360			N	N	646-322-7868	N
280466			N	N	413-536-1997	N
312165			N	N	603-305-9351	N
316855 B106		Fabio and Emi	N	N	NONE LISTED	N
330227			Y	N	717-572-3019	N
349188			Y	N	919-225-7996	N
359424 B102		Biuciuc?	N	N	347-517-1333	N
372601			Y	?	NONE LISTED	N
377397			N	N	206-660-6637	N
169596			N	N	815-685-8822	N
358600			Y	N	978-443-3550	N
354249			N	Y	340-776-6770	N
132011			N	N	812-449-7828	N

