SALT CAY

THE ISLAND THAT TIME AND TOURISM FORGOT

ABSTRACT

Unlike the other islands of the Turks & Caicos, Salt Cay's population has plummeted to just 54 residents. Salt Cay urgently needs a tourism investment to revitalize the island. But which tourism investment type is best suited to attract permanent residents, protect the island's fragile ecosystem and showcase its unique history: a cruise dock, a luxury resort or glamping?

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Executive Summary

Overview

Of the many islands in the Turks & Caicos (TCI), just eight are inhabited. Populations of other islands have increased or stabilized while the population of the tiny island of Salt Cay (2.5 mi^2/6.5 km^2) has plummeted from 400 residents in the 1960s to just 54 residents today. Despite pristine beaches and important cultural heritage, the island suffers from a lack of economic opportunities. Economic expansion is essential for retaining the population and attracting new islanders. Considering the tourism success on the islands of Grand Turk and Providenciales, tourism appears to be the obvious choice to reverse Salt Cay's fortunes. However, tourism is a broad industry and with increasing challenges such as over-tourism and environmental damage, it is crucial to identify the optimal investment to protect the fragile ecosystem while sustainably increasing Salt Cay's permanent residents. Environmental protection and resident wellbeing require **tax generation,** which is a key output from private investment to achieve the outcome here of population reestablishment and sustainability.

Fortunately, there is interest in bringing tourism to Salt Cay, evident in several different opportunities for the island. The tourism investment opportunities include a luxury resort, a cruise ship terminal, and a glamping[1] enterprise. We performed cost-benefit analyses for each option and a sensitivity analysis that considered optimistic, normal and catastrophic scenarios ranging from low-risk and escalating tourist demand to the opposite: high-risk natural disasters (hurricanes and earthquakes) or the effects of a global pandemic. The end-result was a matrix of nine investment-scenarios with net results that facilitate public sector selection of the best long-term investments in the interests of TCI's people and Salt Cay's environment.

Net Present Value (NPV) Calculations and Multi-Criteria Analysis (MCA)

As different scenarios represent different risks, each scenario had a different social discount rate (SDR), construction timeline, and occupancy (Salt Cay tourist-usage assumptions). The construction rates and occupancy impact employment which impact **excise and lodging taxes, as well as health and social insurance payments.** These sources of TCI revenue serve as the analysis **benefits**. With these fiscal resources, the government could build **a law enforcement office, an improved elementary school, and a clinic,** essential social structures to draw permanent residents and their families. Although adding to Salt Cay employment (officers, teachers and medical staff), this vital infrastructure and salaries represent the **costs**. Fiscal benefits minus public services' costs lead to the conclusion that a **luxury resort** would furnish the highest level of government receipts with the most stable employment and thus offers the best chance of increasing permanent residents even in the event of practicing aggressive tax planning and transfer pricing between foreign reservation offices and local resort operations.

Luxury Resort (MCA Score =7.9)	Benefits to Costs Ratio	NPV in USD over 30 yrs	Permanent Jobs: From	- To
Catastrophic (Disasters), SDR = 9.5%	4.24	$ 18,297,016	30	270
Normal, SDR = 5.38%	7.70	$ 49,984,864	100	390
Optimistic, SDR = 4%	8.40	$ 62,106,761	270	420

The NPV calculations and benefits to costs ratios were reinforced with a Multi-Criteria Analysis (MCA) that weighed the different investment options in terms of stable direct and indirect employment,

[1] Glamping is glamorous camping involving luxurious accommodations and facilities including in-suite showers, elegant dining with high-end food and drinks, and first-class service with spa services in some cases.

resident well-being and the environment. While the luxury resort scored best for direct employment and government returns, glamping is the best investment to protect Salt Cay's environment and promote indirect employment. But, glamping is the lowest in terms of returns to the TCI government and cruise ships are not recommended due to the excessively large number of day-trippers with each arrival.

MULTI CRITERIA ANALYSIS (MCA)		Option 1		Option 2		Option 3	
		CRUISE SHIPS & DAY PAX		GLAMPING DEVELOPMENT		LUXURY RESORT	
Criteria	Criteria Weight	Score (out of 10)	Weighted Score	Score (out of 10)	Weighted Score	Score (out of 10)	Weighted Score
Sustainable Employment	25%	4	1.00	6	1.50	9	2.25
Social Services	25%	10	2.50	8	2.00	10	2.50
Indirect employment	15%	3	0.45	9	1.35	7	1.05
Carrying Capacity, i.e. ecosystem	35%	0	0.00	10	3.50	6	2.10
SCORES	100.0%		3.95		8.35		7.90

Conclusion and Caveat

TCI's unique indirect tax system make the results here proper to that country. Unlike the majority of countries, TCI has no direct taxes such as corporate and personal income tax. TCI taxes are charged directly on imports (customs and excise) and tourist usage (lodging tax from room revenues and dock passenger fees) thus making the luxury resort the best option even though transfer pricing and aggressive tax planning by land-based investment occurs. Countries with corporate income tax often collect far less of such receipts because international hospitality corporations make ample use of gaps among global tax treaties (Ambrosie, 2015). In such cases, glamping could provide more social and fiscal benefits. Cruise ships, already exempt from lodging taxes, could be beneficial in an isolated area or an island with no infrastructure whatsoever. In this case, the country benefits by leasing the land, charging a use and/or environmental fee but should not provide expensive infrastructure such as water and electricity. Due to TCI's tax regime, the large-scale investment of a luxury resort is the best option, far outweighing cruises for job creation and outweighing glamping for net fiscal receipts.

Summary Table of Salt Cay Cost-Benefit and Multi-Criteria Analyses

BENEFITS TO COSTS based on a Social Discount Rate (SDR) - a function of the economy and perceived risk

Benefit to Cost (B/C) Ratio	Cruise	Glamping	Luxury Resort
Catastrophic (Disasters), SDR = 9.5%	2.77	0.62	**4.24**
Normal, SDR = 5.38%	4.68	1.10	**7.70**
Optimistic, SDR = 4%	8.05	2.21	**8.40**

NET PRESENT VALUES (NPV) in USD after 30 yrs.

Cruise	Glamping	Luxury Resort
$ 9,998,754	$ (2,156,332)	**$ 18,297,016**
$ 27,475,364	$ 712,233	**$ 49,984,864**
$ 59,104,546	$ 10,111,036	**$ 62,106,761**

	Cruise		Glamping		Luxury Resort	
<u>Direct</u> Employment Creation Range*	From	To**	From	To	From	To
Catastrophic (Pandemic/Hurricanes)	100	20	10	90	30	270
Normal	200	25	20	150	100	390
Optimistic	200	40	45	165	270	420

* Permanent residents are estimated at 2.5 persons per stable job (i.e. excluding initial construction)
**After the initial burst of dock construction, employment falls sharply.

Luxury Resort (MCA Score =7.9)	Benefits to Costs Ratio	NPV in USD over 30 yrs	Permanent Jobs: From	To
Catastrophic (Disasters), SDR = 9.5%	4.24	$ 18,297,016	30	270
Normal, SDR = 5.38%	7.70	$ 49,984,864	100	390
Optimistic, SDR = 4%	8.40	$ 62,106,761	270	420

Glamping (MCA Score = 8.2)	Benefits to Costs Ratio	NPV in USD over 30 yrs	Permanent Jobs: From	To
Catastrophic (Disasters), DR = 9.5%	0.62	$ (2,156,332)	10	90
Normal, DR = 5.38%	1.10	$ 712,233	20	150
Optimistic, DR = 4%	2.21	$ 10,111,036	45	165

Cruise Ships and Day Visitors (MCA Score = 3.1)	Benefits to Costs Ratio	NPV in USD over 30 yrs	Permanent Jobs: From	To**
Catastrophic (Disasters), SDR = 9.5%	2.77	$ 9,998,754	100	20
Normal, SDR = 5.38%	4.68	$ 27,475,364	200	25
Optimistic, SDR = 4%	8.05	$ 59,104,546	200	40

**After the initial burst of dock construction, employment falls sharply.