

The Virgin Islands Consortium

Carambola Sale To Davis Bay, LLC Nears Completion

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Aerial view of Carambola Beach Resort & Spa (Ernice Gilbert, VIC).

ST. CROIX -- The hot topic at the Economic Development Authority's (E.D.A.) board meeting on Wednesday was the Government Employees' Retirement System's ownership of Carambola, and the role the pension system will play in ensuring the successful sale of the resort -- set to be completed this month -- to Davis Bay, LLC. The measure on the floor was a request for transfer of full existing benefits to go along with Davis Bay's purchase of the property.

Tom Bolt, Carambola Northwest, LLC's legal representative, stated that G.E.R.S. extended a \$15 million loan to Carambola in 2010 when the owner faced financial

difficulty, at which point the resort was turned over to G.E.R.S. Mr. Bolt explained that once [G.E.R.S.] had control of the property, it realized that the troubled resort was losing money and experiencing financial and managerial difficulty, and the pension system found itself strapped with a failing resort that would prove difficult to sell. "G.E.R.S. is not only the sole lender of Carambola Northwest, LLC, but also the sole member," he said. The resort is a G.E.R.S. asset and is run by their board."

In 2016, The Consortium reported on an Office of the Inspector General (O.I.G.) audit of G.E.R.S. The story [reads in part](#), "G.E.R.S. has made hundreds of additional disbursements directly to the hotel or on behalf of the entity totaling more than \$12 million. Accordingly, G.E.R.S. has expended more than \$27 million for Carambola (a \$15 million loan and \$12 million in additional funding), as of June 2015." That amount was back in 2015; G.E.R.S. has continued to spend money on a resort that it would rather not be in control of, and a industry it would rather not be in.



Davis Bay, LLC executives with Wayne Biggs, center, EDA CEO/COO, and Rick Carrington II, center right, Carambola manager of operations (Shenneth Canegata, VIC)

Hurricanes Irma and Maria damaged Carambola, but the storms may have been an unlikely blessing in disguise for the embattled resort. After the storms, G.E.R.S. decided to keep the doors open to house employees of the Federal Emergency Management Agency and other recovery personnel. The funding generated from this arrangement resulted in the resort turning a small profit, which continues presently. "When the world gives you lemons, let's make lemonade," Mr. Bolt said, "In spite of the fact that the resort turned a profit, G.E.R.S. is still looking to sell." Approximately 20 interested buyers reached out to G.E.R.S. executives and it was narrowed down to six, then three, and then finally to Davis Bay, LLC, who Mr. Bolt described as a "good fit."

G.E.R.S. had to resolve some issues with the Department of Labor and regulatory arms, but those hurdles have since been overcome, and the closing transaction is scheduled to be completed this month. Once the sale is complete, G.E.R.S. will no longer own Carambola.

Mark Gordon, president of Davis Bay, LLC, specializes in "turn-around" hotel situations. This often involves changing the brand, changing management, and renovating the property. Mr. Gordon said that the idea is to acquire the property and invest \$10 million to refurbish and upgrade it. He added that Carambola was insured and that G.E.R.S. will be allowed to keep all of the insurance proceeds (a figure was not given) from the resort's storm damage and the buyer will be responsible for renovations and upkeep. There will be no change in management. Rick Carrington II, Carambola's current manager, will remain in that position. Mr. Gordon testified that Marriott International was still on board and would allow the rebranding of Carambola as the "Renaissance", with a stipulation that the hotel must be brought up to the higher-end level before approval of the label.

There are two phases that requires completion. Phase one involves completing necessary repairs such as fixing the pool, repairing rooms, getting food and beverage back in service, fixing the water system and any other necessary repairs to get the resort ready before high season, which runs from mid-December to mid-April. The second phase involves working with Renaissance to rebrand the resort (phase one must be completed before the rebranding effort). Until then the resort will continue to operate as Carambola. Phase two will be completed by June of 2020 and the "Renaissance" brand will be used again. Rebranding will involve re-decoration, re-design, painting, replacing the furniture and installing unique spaces to attract more business.

Board member, former senator and current Dept. of Agriculture Commissioner, Positive Nelson, asked if there was room for negotiation in the terms of the benefits. Mr. Gordon said the deal would not be able to move forward without the transfer of benefits at "full" existing levels. "It is critical to the price we are paying," he said, "We must show returns to our investors."

The E.D.A. plays a major role in the economic development of the territory. It describes itself as a government vehicle that promotes economic growth, job creation, and wealth generation in the U.S. Virgin Islands. The E.D.A. aims to accomplish this mission by attracting investors to the territory to establish or relocate their businesses. The E.D.A. also provides financial assistance for new and existing small to medium-sized businesses

and assists V.I. residents and business owners with rehabilitating their properties located in distressed areas that were once vibrant economic centers of activity.

The E.D.A. board retired to executive session where it voted favorably on a request from the resort to adjust its employment requirement under the EDA program during the reconstruction phase. The board did not vote on the 100 percent transfer of benefits request, Mr. Nelson told The Consortium, leaving the action for another board meeting. The hotel currently employs 61 full-time employees, but it intends to boost that number to 100 following the completion of reconstruction.

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