

# Sint Maarten Low-Income and Affordable Housing Technical Assistance (P17024)

Sustainable business model for the Sint Maarten Housing Development Foundation (SMHDF)



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**Date of submission:** October 21<sup>st</sup>, 2019

**Version:** draft

## Preface

This report was prepared by the Housing Specialist consultants Carla van den Nieuwenhof, Ellen Geurts and Marie-Odile Zanders. The report preparation and its data collection were conducted during the period May – September 2019, with missions to Sint Maarten in May (Carla), July (Carla and Ellen) and August (Marie-Odile).

We would like to thank the Sint Maarten Housing Development Foundation (SMHDF) for their collaborative responses to all our information requests. They have generously shared their insights with us in a very transparent, open and welcoming manner.

Sint Maarten is a small island with relatively few professionals working in the housing sector. The institutional setting in which affordable housing is delivered has very few organizations involved as well as a small yet competitive market to draw expertise from. Furthermore, the island has a bifurcated housing market, which like most of the islands' economy serves two very distinct markets: the affordable low-income segment and the high-end mostly expatriate and tourist-based market which is strongly driven by the high cost of land and construction. Moreover, the island is still dealing with the aftermath of Hurricane Irma, which hit Sint Maarten on September 5<sup>th</sup>, 2017. In our evaluation of the SMHDF and the proposals we make for its future, we have tried to tailor these to this challenging context.

## Executive Summary

In this report a review is made of the Sint Maarten Housing Development Foundation (SMHDF) with the intention to develop a proposal for a sustainable business model. The SMHDF was founded in 1996 as a non-profit organization with the objective to operate towards the benefit and improvement of affordable social housing projects for lower income groups on Sint Maarten.

This review of the SMHDF shows that in principle the organizational structure of the SMHDF is fine, but that its finance team, especially, needs strengthening. In terms of the governance structure, there is a concern for the large dependency on Government as the agreed financial flows from Government, to be used to subsidize rental rates for tenants who need it, are not regular. Also, the wide variety of ownership and management models for a relatively small housing stock of 769 units adds a burden to the SMHDF. The relation with Government is mostly through the Performance Agreement and the Board of Supervisors. Government gives very little guidance for policy regulatory frameworks, specifically to the SMHDF.

The financial review of the SMHDF as an organization pertains to three different activities. The main activity for which a financial review is made is the core business of renting social housing units. The second activity is the management of government-owned houses (Hope Estate 1 and 2) and the last one is the occasional development and/or sales of housing units. The SMHDF's latest financial statements (FY17) have not been approved for external use. The solvency in 2017 was 43,5% which is above the norm for social housing institutions as investing in housing is a long-term capital-intensive activity. On the other hand, the working capital is negative. The cash and cash equivalents and the current assets cannot cover the short-term liabilities.

When it comes to rent, the income is in principle relatively steady as few units are added or sold. Increase of rent is also limited as many contracts do not allow for rent increase or increase is not charged because of outstanding maintenance and repairs, although there is some increase in rent as a result of the introduction of a maintenance fee. The aftermath of Hurricane Irma means that there is an increase in repairs, structural improvement and outstanding maintenance costs. As a result of Irma and possibly due to other factors too, some households are in arrears of which quite a few should be evicted in view of rental arrears – very few evictions are however carried through. So, in effect there is a decrease in income and an increase in costs, the latter in particular due to insurance cost. This does not yet acknowledge the backlog in maintenance and foreseen costs for this. The financial administration of activity 2 (management of Hope Estate 1 and 2) and sales of housing is now part of the overall financial administration which further complicates the financial administration.

Based on an elaborate review of the organization, a set of actions are proposed in chapter 2 – these actions are mainly geared at restructuring the financial and administrative situation of the SMHDF, resolving outstanding actions with Government and addressing necessary repairs and maintenance, partly a result of Hurricane Irma. The actions mentioned here need to be addressed immediately for the SMHDF to regain some level of stability in the organization. In addition to these short-term actions, more long-term interventions are needed. In chapter 3, proposals are made to arrive at a more sustainable mix of future projects which includes a broader mix of rental rates. This is in line with chapter 4, which discusses a new business model for the long-term financial sustainability of the SMHDF. Several scenarios were proposed and discussed with SMHDF and its key stakeholders. Based on this it is recommended that the SMHDF is enabled to create a sufficient and sustainable social housing sector on St Maarten in the long run, while operating more distanced from Government and without a need for yearly financial aid from Government. Instead, Government would provide SMHDF land at a low price for building social homes and also commercial real estate.

In order to achieve this future scenario, support needs to be provided to the SMHDF. In the short term, this requires funding for outstanding repairs, refinancing of the current commercial loans to the SMHDF and financial and human resource support to improve its financial administration. For the

intermediate term, a renegotiation is needed of the relationship between the SMHDF and Government (incl. a possible new Performance Agreement or other type of collaboration agreement), capacity development of staff at the SMHDF, in particular also geared at building in-house capacity to develop the organization in terms of financial planning and design of a sustainable future portfolio and a plan for asset and maintenance management. In order to renegotiate the terms with Government it is crucial that a negotiator is appointed. Capacity building of the SMHDF's human resources is a crucial element of building its capacity for the future and have it become Sint Maarten's engine for affordable housing. In the long term, access to affordable finance to develop a more diversified portfolio is key.

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## List of Abbreviations used

ANG or Naf	Antillean Guilder (national currency at Sint Maarten)
APS	<i>Algemeen Pensioenfonds Sint Maarten</i> , pension Fund (for civil servants) on Sint Maarten and Curacao
BoD	Board of Directors
BOTHA	Tenant's organization of SMHDF tenants
BR	Bedroom
EBIT	Earnings Before Interest and Tax
FCIB	First Caribbean International Bank
FKP	Foundation Kas Popular
FS	Financial Statements
FY	Financial Year
HR	Human Resources
NGO	Non-Governmental Organization
NPMNA	<i>Nederlandse Participatie Maatschappij voor de Nederlandse Antillen</i> , a former credit and guarantee fund by the Dutch Government to finance activities in the Dutch Antilles
NRPB	National Recovery Program Bureau
SMHDF	Sint Maarten Housing Development Foundation
SMHFF	Sint Maarten Housing Finance Foundation
SOAB	<i>Stichting Overheidsaccountantsbureau</i> , Government Accountant Bureau
USD	United States Dollar
VNP	<i>Vertegenwoordiging van Nederland</i> , Dutch Government representation in Philipsburg
VROMI	<i>Ministerie van Volkshuisvesting, Ruimtelijke Ordening, Milieu &amp; Infrastructuur</i> , Ministry of Public Housing, Spatial Planning, Environment and Infrastructure
WB	World Bank

# 1. Assessment and evaluation of SMHDF

## Operational model

The Sint Maarten Housing Development Foundation (SMHDF) was founded on the 5th of June, 1996, in St. Maarten. The SMHDF is a non-profit organization with the main objective to operate towards the benefit and the improvement of affordable social housing projects for lower income. The SMHDF was established in the context of the 1995 reconstruction program which included a project plan for social housing drawn up at the end of 1996 for the Island of Sint Maarten, after the devastating hurricanes Luis and Marilyn. The Government of the Netherlands supported the establishment of the SMHDF and as a condition for support a Performance Agreement (dated 23<sup>rd</sup> June 1997) was drawn up between the Island Territory of Sint Maarten and the SMHDF.

The operational model of the SMHDF is to a large extent based on the Dutch model of social housing delivery and management. The tenure form is rental housing at below market rates<sup>1</sup> in order to be affordable for specified low-income<sup>2</sup> households. The current rent levels that the SMHDF offers to the Sint Maarten population are given below (see Table 1). It should be noted that families earning less than ANG 900 are eligible to up to 50% government subsidies, so in practice families may be paying less than these rates.

**Table 1: Division of units by rental charge**

	Rent level / month	units (incl. Hope Estate)	
1	less than ANG 450	268	35%
2	450-600 ANG	116	15%
3	600-900 ANG	252	33%
4	more than ANG 900	133	17%
		<b>769</b>	

The SMHDF is an independent non-profit organization, but with close ties to the Government of Sint Maarten, in particular in view of governance and financial arrangements. In terms of governance, the Minister of VROMI appoints 3 of the 5 Board members. In terms of finance, Government supports certain lower income tenants of the SMHDF with subsidies (subject-based<sup>3</sup> subsidies which are paid out via the SMHDF). The governance and financial ties with Government are laid down in particular in the Performance Agreement as well as in the Articles of Association ('statuten') of the SMHDF.

The SMHDF is the only social rental housing institution that is operating on the island of Sint Maarten. There are no other social housing institutions active on Sint Maarten in the public sector. The private sector does not play a large role in the delivery of adequate affordable housing. This report has focused on the public sector in the housing market. The informal private rental market may also serve low-income groups, but this is often inadequate or sub-standard housing. The SMHDF therefore operates in a niche market which is not served by the open market.

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1 Subsidized rents of SMHDF are mostly between USD150 and USD500, whereby market rates start at USD600-800

2 As rents are in principle capped at 30% of household income, the income groups that SMHDF focuses on translate to household incomes of USD500-2.000. In practice the household income of current SMHDF tenants may exceed these numbers to some extent.

3 Common term in the Dutch social housing system: individual rental subsidy provided to and on the basis of the characteristics of a specific person.

### Ownership of units and land

The SMHDF uses different ownership models for the management of social rental housing relative to their small portfolio. The projects managed or owned by the SMHDF can be divided into 4 projects: Belvedere, Hope Estate 1 and 2, senior homes and mobile homes (see Table 2). Mobile homes are scattered in various geographic locations, while the other units are geographically clustered within the project and are hence at close proximity. The office of the SMHDF is located within the Belvedere housing project in a building owned by the SMHDF.

**Table 2: Overview of ownership of rental units**

Full economic <sup>4</sup> and legal ownership by SMHDF:	Economic ownership by SMHDF:	Managed by SMHDF but owned by Government:
451 units (Belvedere) 24 units (senior homes) 36 units (mobile homes)	164 (mobile homes)	94 rental units (Hope Estate 1 and 2)

These different types of ownership carry different types of risk, which are detailed in the next section of this report dealing with finances. There are also different types of land ownership of the housing units in the SMHDF's portfolio. Some land is on lease land from the Government and some of the mobile homes are on lease-land from private owners. This mix of ownership set-ups for both land and units provides an additional burden for the SMHDF as an organization. The next section shows more details on the different aspects of each of these projects. Table 2 shows the interdependencies between the SMHDF, Government and local land owners in terms of legal set-up of the ownership model.

### Governance and organizational structure

Since 2008, the governance structure of the SMHDF has the characteristics of a two-tier structure:

- Supervisory Board (5 members)
- Board of Directors (2 people: general director and technical director)

The supervisory board presents a mix of five members with specific backgrounds. Three members are appointed by Government, one by the tenant's organization (BOTHA) and the fifth by the other four.

Appointments of members are based on the articles of incorporation. There is a retirement schedule in place. The chair is appointed for a period of 8 years, the other members for 4 years. Earliest retirement according to the schedule is expected to happen in 2022 and 2023 as all members have been appointed in 2018/2019 and the chair in 2015. The chair is the only member that was already in place before Hurricane Irma.

The Supervisory board has regular meetings; the minimum is quarterly, but often more. The Board of Directors (BoD) can request to be part of the meeting and usually they participate. After Hurricane Irma there have been additional meetings. At present only three supervisory board members are active, of which two have expertise on finance and communication and the third is a tenant representative. The two new members who were appointed by Government in 2019 have so far not attended any meetings.

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<sup>4</sup> Economic ownership = right of use for a good whose legal ownership is in the hands of a third party

Figure 1 shows the current structure of the SMHDF.

**Figure 1: Organogram of SMHDF**

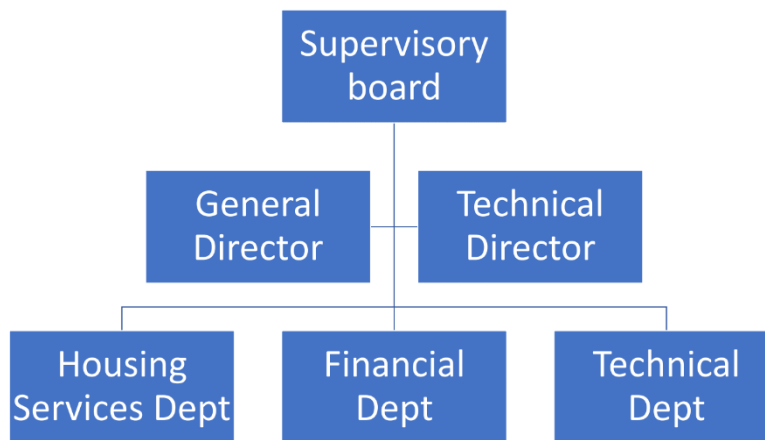
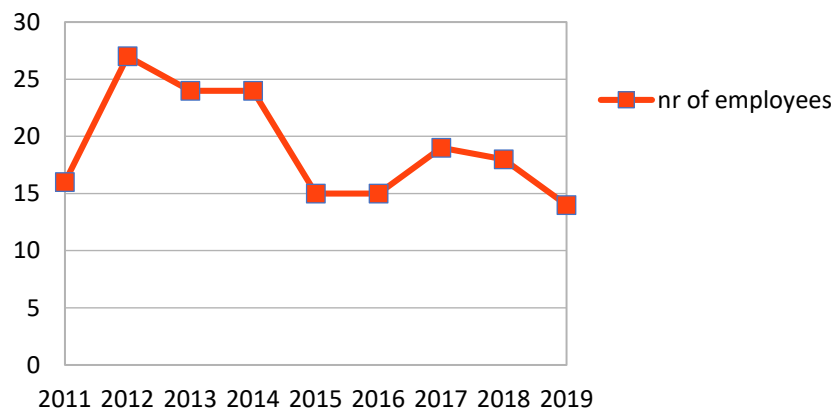


Figure 2 shows the development of the number of employees from 2011 until 2019. The number of housing units managed during this time period has remained more or less stable.

**Figure 2: Number of employees for selected time period**



At the moment (only) 14 employees are working at the SMHDF. All employees that were on a contract were dismissed in recent years due to the financial pressures of the organization. Currently, all 14 employees are overseeing several areas. For example, the supervisor of housing services is also the Senior Financial Controller and HR issues are managed by the general director. The housing services department manages tenant relations. The financial department is mainly concerned with financial administration and bookkeeping. The technical department manages maintenance and repairs, as well as the contractors for larger maintenance activities. The technical department has also managed the development of a few new units.

The SMHDF's current staff division is as follows:

- Board of Directors (2)
- Executive Secretary (1)
- Receptionist/Cashier (1)
- Housekeeping employee (1)
- Housing Services (1.5)
- Financial department (1.5)
- Technical department (6)

The organization's structure has been similar since inception. The division into three departments (clients, finance and technical) is a common and solid set-up for a social housing institution. It is in line with the organizational structure as elaborated by the Human Resources Consultants 'Linkels & Van Wilgen' in 2008. At present there seems to be understaffing in the housing services and in particular in the finance department. A more balanced staffing across these three departments is desirable as they are all three core tasks for a housing institution. A 2009 KPMG quick scan report showed a more balanced size for each department in the past – over the last decade the housing services and finance department have shrunk whereas the technical department grew, mainly as a result of the number of repairs needed after Hurricane Irma, the lack of early maintenance and the challenging state<sup>5</sup> of some of the housing that SMDHF manages, requiring the units to be repaired often.

Overall the biggest internal challenge -apart from the limitation of the currently used accounting system and practices- is to find and keep well-qualified personnel. This issue is also recognizable in other institutes (Government, APS, etc.) on the Island of Sint Maarten.

The SMHDF has had 11 general directors in 23 years of existence, which demonstrates a lack of stability and continuity over the years. The current general director has been in place since 2015 and has been with the organization long before that. As the organization is relatively small, the Board of Directors regularly outsources activities to external consultants, such as the development of the business plan and recently the financial administration. Ideally, the organization should have sufficient in-house capacity (in terms of human resource and time) to address these strategic tasks. It is desirable to have less dependency on external consultants, but this is also a characteristic for an organization which is still maturing, let alone one that needs to deal with the aftermath of a hurricane.

Due to the SMHDF functioning at sub-optimal level as a consequence of several internal and external issues plaguing the organization from the start of its set-up and considering the organization is still faced with the impact of the damages of Hurricane Irma, it is not possible for the consultant's team to make a judgement on the performance of the organization as a whole or at individual level. Once these issues (which are elaborated in the next section and in chapter 2) are "mostly" resolved, evaluations of the organization and possibly also at individual level seem more feasible.

Nevertheless, the structure of the organization is a straightforward structure for a social housing institution, except for the SMHDF's finance department which is relatively smaller than the norm and dependent on external consultants for certain senior tasks. The number of the SMHDF staff is also reasonable and comparable to social housing institutions that are still in a development and growth phase. Once the institution can attain a more stable situation, the actual housing stock increases and the post-hurricane situation is fully dealt with, a more efficient staff to housing stock ratio can potentially be achieved – but for social housing institutions to achieve this level of maturity can take 2 to 3 decades, even without disasters such as Irma.

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<sup>5</sup> With many of the units that the SMHDF manages being designed and constructed based on Dutch building codes and built with not commonly available materials, repair materials need to be imported or improvisations need to take place.

## Financial status of organization

### Short history

In the Netherlands, the Government enters into Performance Agreements with entities that are private companies but fulfill a public mandate, most notably these exist between local government and social housing institutions. Most Performance Agreements are geared towards committing on joint efforts – the Performance Agreement for Sint Maarten stipulated far more detailed processes, compliance and outcomes than is usually the case in the Netherlands itself. In annex 1 a more detailed review is made of the articles of this Performance Agreement. The Performance Agreement between Government and the SMHDF of 1997 was supposed to form the basis for the development of various social housing projects across the island. It was envisioned that with revenue from such projects, the SMHDF should have been able to attain financial sustainability. However, the margins were tight from the start.

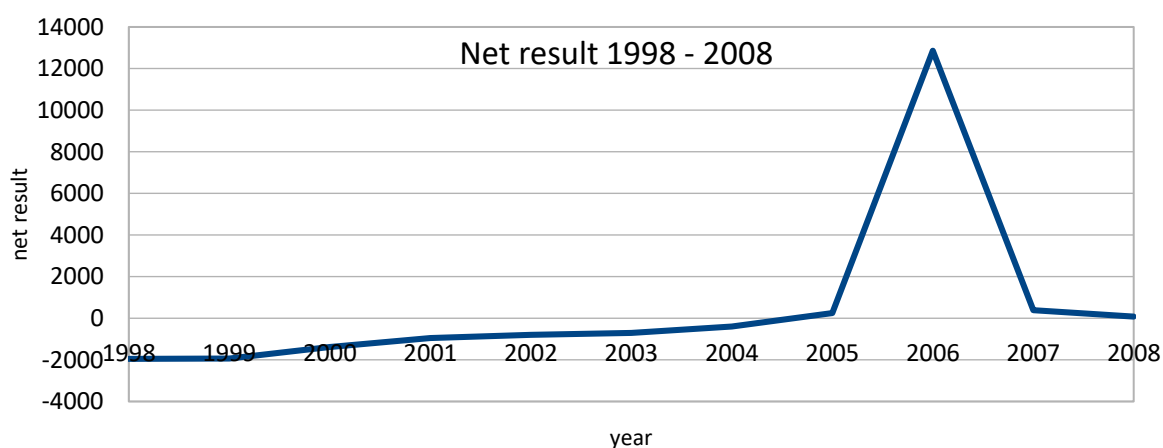
After the first evaluation in 2000 (conducted by dr J.B.S. Conijn of RIGO Research en Advies BV, the creator of the initial Performance Agreement), it was clear that the situation at that time deviated strongly from what was assumed in the Performance Agreement. The financial position of the SMHDF was so bad that the continuity of the SMHDF was at stake.

The main, largely external, causes for the poor financial position in 2000 were the following:

- The projects (emergency homes and Belvedere) were delivered much later than expected which resulted in much lower rental income than projected;
- Some projects (Senior homes, Hope Estate and PPP homes) were not realized at all as assumed in the Performance Agreement which had a negative effect on the rental income as well;
- Dutch consultants were hired for a considerably longer time than expected so those overhead costs -which were fully charged to the SMHDF- were much higher than anticipated.

Due to this, the SMHDF had a very poor financial start. Figure 3 shows the net results from the start until 2008.

**Figure 3: SMHDF net results 1998-2008**



From the start until 2004, the SMHDF suffered losses and had negative equity. In 2006 a restructuring of the loan portfolio took place. This was required by the Dutch Government because of the recurrent defaults on the loans provided by NPMNA (Nederlandse Participatie Maatschappij voor de Nederlandse Antillen). The remittance of these loans had a very large impact on the 2006 results. Part of the NPMNA loan had to be paid back by the SMHDF but approximately USD 7 million (12,7 million

ANG) was written off by the Dutch Government and could be considered as a grant to the SMHDF. This declares the surplus in 2006 and the considerable improvement of their equity since then.

### **Financial status**

The analysis of the SMHDF's financial status is based on the Financial Statements (FS) of 2013 - 2017. The last Financial Statement is of 2017. The Financial Statements are prepared with the support of 'BDO St Maarten B.V.'. The financial administration delivers the figures to BDO and BDO uses a template to draft the financial statements. BDO has been consulted to give clarification about some figures in case the staff of the SMHDF could not provide this.

The FS of 2017 is adjusted for reason of comparison with the following: the insurance settlement of ANG 1,7 million has been left out of consideration to be able to make better comparisons. The FS 2017 shows a 'profit' of 2,5 million while the payment of 1.7 million is not actually a profit.

In BDO'S independent auditor's report of the audit of the 2017 financial statement stated the following:

- In the balance sheet as of December 31, 2017 the accounts receivable of ANG 72.225 and cash and cash equivalent of ANG 34.785 are included, however accuracy of these figures could not be established.
- In the balance sheet as of December 31, 2017 an accounts receivable amount totaling ANG 382.464 is included of which the completeness could not be established.

The SMDHF indicated that it is not be able to retrieve this information easily from their internal accounting system. Being this one of the reasons why the SMHDF did not receive a statement of approval or unqualified report but rather a qualified opinion. An unqualified report would mean that the information presented in a company's financial statement is clean, i.e. presumed free of misstatements. A qualified opinion means that the auditor cannot express an unqualified opinion for several reasons, which could include for instance not being presented the financial records in accordance with standards.

These statements above pertain to the FS of the SMHDF only, and do not include the figures of the Sint Maarten Housing Finance Foundation (SMHFF), a housing finance fund organized separately from SMHDF but 100% owned by SMHDF. More details on this structure are given in the following paragraphs.

In 1998, the Sint Maarten Housing Finance Foundation (SMHFF) was established as a housing finance instrument (revolving fund) aimed at stimulating self-building through access to finance. The SMHFF was supposed to provide land-owners with mortgage loans for self-built houses. The objective was to develop a revolving fund for which the Dutch Government made 7,5 million ANG available to the SMHFF as starting capital. The SMHFF was created to work in parallel with the SMHDF, as the later one cannot legally distribute mortgages. More information about SMHFF and its financial ties between the SMHDF and the SMHFF are explained in depth hereafter in the section on financial fixed assets.

In addition to the two issues outlined above, the third issue standing in the way of finalizing these financial statements is that the SMHFF needs to be integrated (consolidated) in the SMHDF's accounts as it is 100% owned by SMHDF. But the challenge is that after 2011 no figures and administration are available for the SMHFF. Since 2008 the article of incorporation was amended and the SMHDF general director became the SMHFF Board. This meant that the SMHFF director at that time could use the SMHFF funds at his discretion. Only in 2014 did the SMHDF supervisory board acknowledge the implications of the amendments made in 2008, when the Financial Statements for 2011 were delivered and it surfaced that the general director had committed fraudulent actions. When the supervisory board realized this they resigned, leaving the SMHFF and

SMHDF with two supervisory board members at the time. Since 2012 no statement of approval (goedkeuringsverklaring) has been provided by the BDO accountants for the consolidated SMHDF's and SMHFF financial statements.

Due to the high turnover of staff within the SMHDF, including the financial department, there has been a lack of continuity whereby no decent transfer of knowledge has taken place. Furthermore, the current internal accounting system (Exact) is not tailored to the features of a social housing institute such as SMHDF, meaning a lot of manual time-intensive tasks must be completed by staff.

In May 2019, the senior Financial Controller was doing the administration of 2018 all over again in order to obtain reliable figures to be able to prepare the financial statements of 2018. The organization gets support by a consultant from Exact. In July the SMHDF decided, due to the lack of finance, to terminate the contract with Exact. Subsequently, SMHDF decided to change their accounting system to Quickbooks. Quickbooks is considered to be more cost efficient and less complicated to make errors. However, similar to Exact, this accounting system is not tailored specifically for the administration of rental houses and will not ease certain administrative procedures specific to social housing management as it is primarily for bookkeeping.

The above confirms that the SMHDF's internal and external financial reporting is not up to industry standard. SMHDF acknowledges this internal weakness and has appointed 'Versant Accountants & Consultants' in August 2019 to "arrest, stabilize and turn-around a long-time deteriorating situation with respect to the Finance function" within the SMHDF. More specifically, Versant will work during a period of roughly 36 months on the following:

- Support the SMHDF with current administration (going concern)
- Accounting and Management letter issues
- Set up a new Company file within the chosen software
- Implement Project Management within software if applicable
- Assisting in building capacity among internal resources

### Financial Statements 2013 – 2017

Table 3 gives an overview of the main financial figures. The financial statements presented here are based on financial records provided by the SMHDF and further financial analysis is based on the SMHDF financial records. Therefore, all financial statements are in ANG.

**Table 3: Financial statements (in ANG)**

<b>Balance sheet</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Assets</b>					
<b>Fixed assets</b>					
<b>Intangible fixed assets</b>	<b>591</b>	<b>1.554</b>	<b>2.839</b>	<b>4.122</b>	<b>5.402</b>
<b>Tangible fixed assets</b>					
Office building and land	2.832.482	2.878.286	2.924.090	2.969.894	2.799.321
Rental homes	19.694.558	21.307.267	22.970.103	24.648.710	26.331.373
Other tangible fixed assets	365.962	334.226	352.671	230.144	232.094
Work in progress	3.251.699	3.118.787	1.650.405	1.797.371	820.191

	<b>26.144.701</b>	<b>27.638.566</b>	<b>27.897.269</b>	<b>29.646.119</b>	<b>30.182.979</b>
<b>Financial fixed assets (SMHFF)</b>	<b>469.688</b>	<b>332.432</b>	<b>1.607.088</b>	<b>1.097.323</b>	<b>1.670.614</b>
<b>Current assets</b>					
<b>Inventories</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>304.847</b>
<b>Receivables</b>					
Accounts receivable	448.731	200.356	82.417	235.544	1.057.051
Receivable government	1.857	0	62.637	155.861	616.913
Other receivables and prepaid expenses	202.891	225.350	303.580	299.685	329.414
	<b>653.479</b>	<b>425.706</b>	<b>448.634</b>	<b>691.090</b>	<b>2.003.378</b>
<b>Cash and cash equivalents</b>	<b>1.937.107</b>	<b>2.548.595</b>	<b>2.303.910</b>	<b>2.324.585</b>	<b>1.977.058</b>
<b>Total assets</b>	<b>29.205.566</b>	<b>30.946.853</b>	<b>32.259.740</b>	<b>33.763.239</b>	<b>36.144.278</b>
<b>Equity and liabilities</b>					
<b>Foundation's equity</b>					
Nominal capital	100	100	100	100	100
Donations	7.160.357	7.160.357	7.160.357	7.160.357	7.160.357
Retained earnings	4.703.100	4.121.358	3.811.961	5.090.040	4.954.215
Result for the year	839.904	581.742	309.397	-1.278.079	135.825
	<b>12.703.461</b>	<b>11.863.557</b>	<b>11.281.815</b>	<b>10.972.418</b>	<b>12.250.497</b>
<b>Deferred income from grants</b>	<b>6.207.114</b>	<b>6.537.126</b>	<b>6.867.138</b>	<b>7.197.150</b>	<b>7.497.162</b>
<b>Non-current liabilities</b>					
FCIB Credit A	5.383.598	7.322.426	9.145.587	10.855.669	12.367.099
FCIB Credit B	337.838	421.403	496.219	570.797	634.589
Rental deposits	526.805	520.856	506.682	484.972	471.573
	<b>6.248.241</b>	<b>8.264.685</b>	<b>10.148.488</b>	<b>11.911.438</b>	<b>13.473.261</b>
<b>Short term liabilities</b>					
Current portion of LT loans	2.181.085	2.048.426	1.907.232	1.776.210	1.535.029
Liability to government	0	7.910	0	0	0

Taxes and soc security	94.779	70.945	48.978	103.241	98.687
Liability due to pensions	0	86.671	0		0
Other payables and short term liabilities	1.770.886	2.067.533	2.006.089	1.802.782	1.289.642
	<b>4.046.750</b>	<b>4.281.485</b>	<b>3.962.299</b>	<b>3.682.233</b>	<b>2.923.358</b>
<b>Total liabilities</b>	<b>29.205.566</b>	<b>30.946.853</b>	<b>32.259.740</b>	<b>33.763.239</b>	<b>36.144.278</b>
<b>Key ratios</b>					
Solvency	43,5	38,3	35,0	32,5	33,9
Working capital	-1.456.164	-1.307.184	-1.209.755	-666.558	1.057.078
Current ratio	0,64	0,69	0,69	0,82	1,36
Interest coverage ratio	1,71	0,74	0,35	-1,27	0,12

Several key financial ratios are given in the table above which highlight the SMHDF's solvency and liquidity over the period 2013-2017. The solvency was calculated by dividing SMHDF's equity (including deferred income from grants) by its total assets. The liquidity was assessed via calculating SMHDF's working capital (subtracting the current liabilities from the current assets), its current ratio (dividing current assets by current liabilities) and its interest coverage ratio (earnings before interest and taxes (EBIT) for one year, divided by interest expenses for the same time period). A company's solvency shows to what extent a company depends on debt. With this figure you can see if you can meet all your payment obligations in the event that you stop operations or go bankrupt. The liquidity of a company indicates to what extent a company can meet its short-term payment obligations, i.e. whether it can pay its bills.

Usually, social housing institutions will have a low level of solvency due to the capital-intensive nature of their investments into housing, usually financed via debt. The Dutch social housing guarantee fund (WSW), which guarantees social housing investments in the Netherlands to ensure lowest possible costs for the sector, requires participating social housing institutes to have a solvency ratio of minimal 20%. With SMHDF's solvency varying between 33,9 and 43,5% it can be concluded that these are well above average, primarily due the organization's relatively low level of debt, which has been decreasing every year. It should be noted that in an ideal scenario, the terms of a social housing institute's debt portfolio will usually match the lifecycle of a social rental housing project. For example, if houses can be rented out for a period of 50 years (assuming there is an appropriate level of maintenance), the accompanying debt of that project would have a term of 50 years. SMHDF's loans have a term of 20 years which puts pressure on their business model.

With regard to SMHDF's liquidity the situation is much more negative: the working capital is negative whereas it should be at least positive, the current ratio should be at least 1.5 and the interest coverage ratio should be somewhere between 3 to 5 for an organization to be considered bankable. These ratios indicate that the SMHDF would not have been able to meet its short-term payment obligations in the period 2013-2017. This means that even ahead of Hurricane Irma the SMHDF's project portfolio did not generate enough returns for the SMHDF to be able to pay its bills.

#### **Financial Fixed Assets (SMHFF)**

The financial fixed assets mentioned in Table 3 are loans provided to the SMHFF (Sint Maarten Housing Finance Foundation).

This foundation (SMHFF) was established by the SMHDF in 1998 upon instigation of the Central Bank of the Netherlands Antilles. It is a separate entity with the mission to provide access to finance products (loans) to support affordable housing development in the island. The aim of the SMHFF was to provide land-owners with mortgage loans for self-built houses that were built incrementally. They develop a revolving fund for which the Dutch Government made 7,57 million ANG available to the SMHDF. The SMHDF can legally not distribute mortgage loans, hence the SMHFF was established. In order to do so, the SMHFF received a dispensation (according to art. 45 of the Landsverordening Toezicht bank- en kredietwezen 1994) of the Central Bank of the Netherlands Antilles.

According to reports of the SMHDF over 200 mortgage loans have been approved since 2000 for the construction of homes, for a total value of ANG 12,8 million. A quick-scan analysis by KPMG in 2008 stated that a total of 54 mortgage loans were approved and granted from over 200 applications for the construction of homes totaling ANG 5,5 million. During 2008 the loan portfolio was sold to Postspaarbank N.V. After the sale of the mortgage portfolio, only 6-8 delinquent mortgage loans were left in the SMHFF. The SMHFF can be considered dormant. Since 2012 no administration or bookkeeping has been done for the SMHFF. Its dispensation from the Central Bank has been returned, so there are no obligations or conditions towards the Central Bank anymore.

Although it seems a dormant foundation without any activities, the SMHDF still has an amount receivable from SMHFF on their balance sheet. The SMHDF also charges annually ANG 116.628 to SMHFF for shared costs of personnel and housing expenses which implies that SMHDF is performing services on behalf of SMHFF.

The financial fixed assets include a current account payable as well as a work in progress account which was developed as shown in Table 4.

As no audited financial statements nor internal financial records of the SMHFF are available it is not clear what the assets of the SMHFF are. The board of directors are working towards resolving this matter. A decision must be made how to resolve the issues associated with SMHFF, especially as they are impeding the finalization of the financial statements of the SMHDF.

**Table 4: The SMHFF info from the SMHDF financial statements**

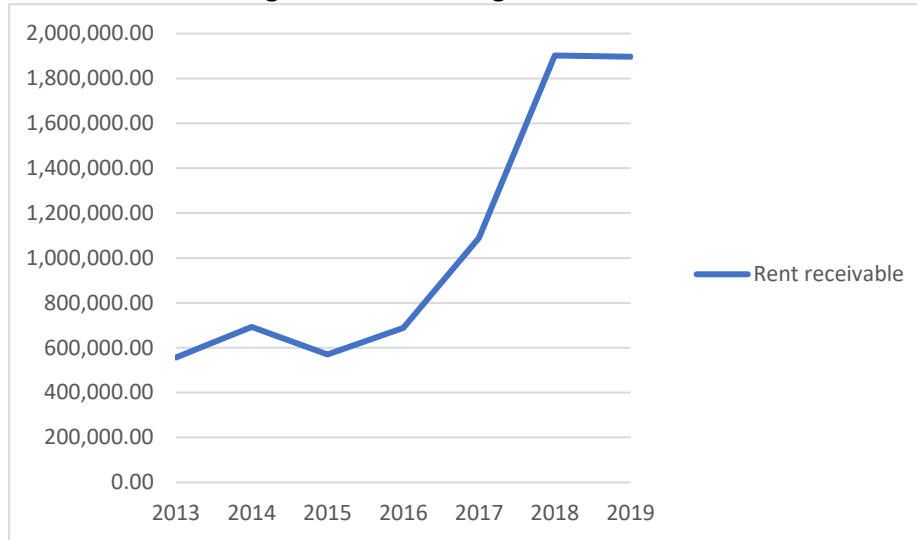
	2017	2016	2015	2014	2013
Work in progress	566.120	565.056	1.373.932	536.248	268.305
accounts receivable	-96.432	-232.624	233.156	560.800	1.369.109
	<b>469.688</b>	<b>332.432</b>	<b>1.607.088</b>	<b>1.097.048</b>	<b>1.637.414</b>

From the evidence presented in Table 4, we can conclude that there were assets left in the SMHFF as the financial fixed assets have decreased in the last years.

#### **Accounts receivables**

The accounts receivables are the arrears in rent of the tenants. As shown in Figure 4, it has increased enormously after 2017 when Sint Maarten was hit by Hurricane Irma.

**Figure 4: Outstanding arrears in rent**



The sharp increase in rent arrears projected in Figure 4 is mostly due to the aftermath of Hurricane Irma. Some households are less capable of paying rents, but others have decided to pay less rent because of outstanding repairs. Later in the report a further explanation is given with regard to rental arrears, backlog in maintenance and the option to proceed for eviction. One particular concern that is noted here is that there are many delinquents in particular in the Hope Estate 2 project where many tenants cannot actually afford the rental rates charged and no subsidy is provided. In this project, little damage occurred from Hurricane Irma, so the arrears here are directly a result of unaffordability and not related to arrears resulting from repair backlogs (i.e. rental boycott based on outstanding repairs).

Table 5 shows the rent receivable per project.

**Table 5: Rent receivable (in arrears) per project – in ANG**

	2019	2018	2017	2016	2015	2014	2013
current							
Belvedere	1.277.453	1.274.139	687.694	436.101	338.279	504.267	416.499
Mobile homes	399.610	311.011	232.625	138.025	143.370	125.049	102.297
Senior homes	13.577	45.436	6.412	0	3.269	4.059	1.598
Hope Estate 1	82.349	124.595	12.129	26.116	27.711	21.174	11.837
Hope Estate 2	123.146	147.084	149.849	88.139	57.813	38.890	24.277
<b>Total</b>	<b>1.896.135</b>	<b>1.902.265</b>	<b>1.088.709</b>	<b>688.381</b>	<b>570.442</b>	<b>693.439</b>	<b>556.508</b>

### Receivables Government

As a result of the Performance Agreement and the Management agreement for Hope Estate the Government and the SMHDF have mutual financial obligations.

The Government has to pay subsidies including indexations to certain tenants via the SMHDF, while the SMHDF is receiving rental income for the Hope Estate units, which it manages on behalf of the Government. The receivables to and from Government consist of 6 different financial flows in the SMHDF's balance sheets which are listed in Table 6.

**Table 6: Financial flows between Government and the SMHDF<sup>6</sup>**

(in ANG)		Estimation 2019	Estimation 2018	FS 2017	FS 2016	FS 2015	FS 2014	FS 2013
1	Rental subsidy and indexation Belvedere	860.520	1.485.689	1.127.601	785.768	534.716	310.426	451.950
2	Rental subsidy and indexation Senior Homes	295.903	241.161	188.013	145.956	95.859	47.221	-
3	Hope Estate I receivable	81.952	155.702	229.452	303.202	376.952	450.702	524.452
4	Hope Estate I receivable "Revolving Fund"	(1.055.719)	(923.719)	(791.719)	(659.944)	(528.844)	(396.000)	(329.038)
5	Hope Estate II receivable	(1.491.394)	(1.262.194)	(1.032.994)	(802.554)	(573.859)	(352.459)	(136.105)
6	Other government receivables	405.188	343.346	281.504	219.662	157.820	95.978	105.653
		(903.549)	39.986	1.857	(7.910)	62.644	155.868	616.912

1. The Government has to pay the subsidy for certain tenants renting the social homes in Belvedere, including the indexation. In the Performance Agreement it is agreed upon that an annual flat amount of ANG 300.000 will be paid by the Government in order to distribute to the tenants who are eligible for subsidy. As this flat amount was already agreed in 1997, one can question to what extent this still covers the subsidy needs of SMDHF's tenants. The current SOAB audit of SMHDF will give more clarity on this issue. The SMHDF has to report annually to what extent and to which tenants they have given a subsidy. The contribution of the Government is subject to an indexation per year. The Government has paid the ANG 300.000 subsidy annually, but the indexation has not been paid on a regular basis.

As a result, the Government has a debt to the SMHDF which is shown in Table 7.

**Table 7: Financial flows between Government and SMHDF:  
Rental subsidy and indexation Belvedere – <sup>7</sup>**

	Estimation 2019	Estimation 2018	2017	2016	2015	2014	2013
1/jan.	1.485.689	1.127.601	785.768	534.716	310.426	451.950	270.538
Add: Subsidy Belvedere	300.000	300.000	300.000	300.000	300.000	300.000	300.000
Add: Indexation receivable current year	274.831	258.088	241.833	226.052	210.730	195.854	181.412
Subsidy received	(200.000)	(200.000)	(200.000)	(275.000)	(286.440)	(300.000)	(300.000)
Indexation received	(1.000.000)				-	(337.378)	-
31/Dec	860.520	1.485.689	1.127.601	785.768	534.716	310.426	451.950

6 Figures for 2013 to 2017 are from financial statements; 2018 and 2019 figures are derived from agreements

7 Figures for 2013 to 2017 are from financial statements; 2018 and 2019 figures are derived from agreements

2. The Government has to pay the subsidy for the senior homes in Belvedere including the indexation in the same way as described under point 1.
3. The Hope Estate 1 receivables pertain to the investments made for a project in Hope Estate. The work in progress of Hope Estate amounted to approximately ANG 689.000, which was capitalized in 2010 and based on agreements with the Government of St. Maarten. The amount is repaid by the Government in monthly installments of ANG 6.146 as part of the management agreement. By 2021 the total investment will have been paid back.
4. As part of the management agreement, the SMHDF manages the social housing project Hope Estate 1. As such, the SMHDF collects the rent and insures for the 70 apartments on behalf of the Government. The SMDHF receives a monthly management fee of ANG 14.100 to cover costs incurred, including salary costs and small maintenance expenses. Additionally, it gets the management agreement, which are incentives and penalties to improve collections. The proceeds of the rental income are payable to Government, after deduction of the monthly management fee (ANG 14.100), insurance costs paid (ANG 3.854 per month), and repayment of the initial investment amount (ANG 6.146 per month) as referred to above.
5. No agreement has been established for the management of the 24 units at Hope Estate 2. The net profit of Hope Estate 2 on behalf of Government is based on the received rental revenue from Hope Estate 2 and deductions for expenditures of the insurance premiums and maintenance fees.
6. 'Other government receivables' are not clearly defined but are probably related to the following clause in the Performance Agreement: "In case the long lease agreements can be extended and the lease expenses surpass the amount of Naf 160.000 per year, the difference will be subsidized by the Government."

Based on this estimation, the Government owes the SMHDF (by end of 2019) approximately ANG 1,6 million for outstanding subsidies and other government receivables, while -based on the rental contracts- SMHDF should have received rent income for Hope Estate of ANG 2,5 million. These figures for Hope Estate assume that all calculated rental income is also received by SMHDF, which is not the case. It does not become clear from the management agreement where the responsibility lies when it comes to rental arrears, so who bears the loss for these unpaid rents. What is clear from this agreement is that no actual financial flows to Government are foreseen for Hope Estate, i.e. SMHDF does not have to pay the rental income to the Government. SMHDF does however need to administer the Hope Estate income and expenditures in a separate account in order to remain earmarked for this particular housing project portfolio.

## SMHDF income statements 2013-2017 (in ANG)

Table 8 gives an overview of the income statements by SMHDF over the period 2013-2017.

**Table 8: The SMHDF income statements**

Income statements	2017	2016	2015	2014	2013
Rent income (incl indexation)	5.872.447	5.853.716	5.787.788	5.742.566	5.728.615
Management fee Hope Estate 1	170.200	171.000	173.350	170.649	170.650
Other operating income	10.192	3.025	123.916	7.884	9.336
Sales	0	6.090	0	-4.474	-24.992
<b>Total income</b>	<b>6.052.839</b>	<b>6.033.831</b>	<b>6.085.054</b>	<b>5.916.625</b>	<b>5.883.609</b>
Direct cost	1.067.555	979.029	1.145.801	1.265.781	743.833
Depreciation	1.416.318	1.473.843	1.433.943	1.462.445	1.417.884
Overhead cost	2.108.290	2.265.394	2.374.794	3.529.345	2.597.774
Finance cost	620.772	733.823	821.119	937.133	988.293
<b>Total cost</b>	<b>5.212.935</b>	<b>5.452.089</b>	<b>5.775.657</b>	<b>7.194.704</b>	<b>5.747.784</b>
<b>Result</b>	<b>839.904</b>	<b>581.742</b>	<b>309.397</b>	<b>-1.278.079</b>	<b>135.825</b>

The main sources of income of the SMHDF are the rent (1) from their rental units. Other sources of income are management fees (2) and occasionally sales (3).

### 1. Rental income

The SMHDF has three projects (Belvedere, Senior homes and the mobile homes) in full ownership, for which they collect rents. The rental income displayed in Table 8 is the actual rent charged administratively for the unit. The tenant may pay less if they qualify for subsidy, which means the rent consists of subsidy and tenant payment. It should also be noted that as this data refers to the rent charged, it does not mean the SMHDF receives this total income. Arrears are booked administratively as 'rent receivable'.

The data in Table 8 is based on the SMHDF's own financial statements. In those figures, no rent increases are charged to the tenants. In the current situation, some 40% of the tenants have a rental contract that allows for rent increases in theory. However, the SMHDF has till date not implemented this possibility to increase rental charges due to the outstanding maintenance of many of their buildings.

The rents are limited by law to 12% of the historical building costs. The SMHDF was recently informed (via SOAB) that a law ("Landsverordening") was implemented by Government of Sint Maarten in January 2014 that allows parties to charge rents to 12% of the **market** value of their buildings<sup>8</sup>. It is unknown how the SMHDF will adjust their operations in reference to this law. Most certainly it is another administrative burden with far reaching consequences for the financial administration. Although it does provide an opportunity to receive a more sustainable income, this may not be generated in practice and could therefore remain to be mostly an administrative burden. Changing this is no small feat, as a recent similar change in the Dutch system shows social housing institutions spending considerable time on adapting administrative systems.

<sup>8</sup> Landsverordening van de 9de januari 2014 tot vaststelling van titel 4 van Boek 7 van het Burgerlijk Wetboek (Landsverordening huur) – Artikel 243 - 1

According to the Performance Agreement, a maximum of 30% of the tenant’s income can be charged for rent. If the rent is more than 30% of the income, the rest is a subsidy paid by the Government to the SMHDF for these tenants and is capped at a maximum of 50% of the rent. The subsidies only apply for the tenants residing in the 318 social homes within the Belvedere project including the senior homes. The tenants of the mobile homes cannot apply for subsidy.

The SMHDF has limited info available on rent loss due to (temporary) vacancy of properties, as their current administration system does not allow for this to be registered. Picture 1 shows the manual administration of these vacancies.

Vacant Unit	Unit type	Rent + MF 10%	Vacant Per	Remarks/Comments
1 Delight Est # 37 1	SMH/R2	962.50	1-Jan-18	Termite issue.
2 Foga Est # 5 2	DMA/R3	990.00	30-May-18	
3 Sugar Mill Est # 30 3	IXV/D2	1,290.00	1-May-18	
4 Low Est # 27 4	DMA/R2	962.50	30-July-18	
5 Low Est # 91 5	PD2/A1	605.00	31-May-18	
6 Happy Est # 30 6	PD2/A3	1,100.00	1-Nov-18	
7 Golden Grove Est # 39 7	DMA/R3	990.00	1-Dec-18	
8 Happy Est # 25 8	PD2/R2	1,017.50	1-Dec-18	
9 Prospect Est # 14 9	PD2/R2	1,017.50	1-Oct-18	
10 Free land Est # 2 10	DMA/R2	962.50	19-Dec-18	
11 Ferro Cactus # 16 1	MH/R2	852.50	30-July-18	Active Bel 443 MOB 190 Hope I 62 Hope II 23 Senior 23 } Billing 23 units currently vacant + in mutation
12 Water Rock # 22 2	MH/R2	852.50	30-Aug-14	
13 Water Rock # 24 3	MH/R2	852.50	18-Nov-12	
14 Water Rock # 26 4	MH/R2	852.50	1-July-14	
15 Water Rock # 28 5	MH/R2	852.50	13-Feb-13	
16 Shak Shak # 6 6	MH/R2	852.50	1-May-14	
17 Shak Shak # 8 7	MH/R2	852.50	1-July-13	
18 Shak Shak # 10 8	MH/R2	852.50	15-May-14	
19 Shak Shak # 11 9	MH/R2	852.50	15-May-13	
20 Shak Shak # 13 10	MH/R2	852.50	15-Apr-13	
21 Low Est # 123 11	PD2/A1	605.00	4-Feb-19	
22 Low Est # 12 12	SMH/D3	1,394.00	28-Feb-19	
23 Belvedere Well Bldg B 2-21	HOP/3	1,000.00	14-Mar-19	

Picture 1: Manual administrating of vacancies and mutations in the SMHDF’s portfolio

Table 9 shows an overview of all the housing projects owned by SMHDF and the rental income received for these projects.

Table 9: Rental income per year and per project

Rental income						
Project	Number of units	2017	2016	2015	2014	2013
Belvedere	451	4.640.640	4.609.280	4.588.647	4.553.968	4.544.509
Senior homes	24	88.107	86.444	87.572	86.362	86.651
Mobile homes	200	883.386	881.645	885.321	892.287	903.317
	675	5.612.133	5.577.369	5.561.540	5.532.617	5.534.477
Rent increase		0,62%	0,28%	0,52%	-0,03%	
Indexation		260.314	276.347	226.248	209.949	194.138
<b>Total rental income</b>		<b>5.872.447</b>	<b>5.853.716</b>	<b>5.787.788</b>	<b>5.742.566</b>	<b>5.728.615</b>

## Belvedere

Belvedere consists of 451 homes broken down into 13 different housing types. There were originally 474 houses built but during 2006 – 2008, 23 of these homes (the more expensive duplex homes with rents starting from ANG 990) were sold.

The annual rent to be received for this project -provided no arrears occur- are shown in Table 11. This is based on the rental fees shared by SMHDF.

**Table 11: Annual rent Belvedere housing project**

	Type	Units	Amount	Rent (ANG)	Original	Annual rent
1	PD2/A1	44	44	450	237.600	237.600
2	PD2/A2	46	46	550	303.600	303.600
3	PD2/A3	24	24	800	230.400	230.400
4	PD2/R2	21	21	825	207.900	207.900
5	PD2/R3	21	21	900	226.800	226.800
6	DMA/R2	65	65	775	604.500	604.500
7	DMA/R3	65	65	800	624.000	624.000
8	SXM/R2	16	16	775	148.800	148.800
9	SXM/R3	16	16	850	163.200	163.200
10	SXM/D2	20	40	990	475.200	237.600
10	SXM/D2	12		1040		149.760
11	SXM/D3	45	68	1130	922.080	610.200
11	SXM/D3	15		1190		214.200
12	IXI/D2	27	38	990	451.440	320.760
12	IXI/D2	6		1040		74.880
13	IXI/D3	8	10	1190	142.800	114.240
		<b>451</b>	<b>474</b>		<b>4.738.320</b>	<b>4.468.440</b>
				<b>Average rent</b>		<b>825,65</b>

According to SMHDF's annual financial statements the rent charged in 2013- 2017 is higher than what is shown above. A reason for that can be that for new tenants signing up since 2012 a maintenance fee of 10% has been incorporated. These new tenants pay a maintenance fee of 10% of the rent on a monthly basis. Besides that, the SMHDF charges a non-refundable development fee of one month's rent at the start of a rental contract. These facts explain the slight increase of rent over the years.

## Senior homes

For the elderly people, 24 homes were constructed. The homes consist of 12 studio apartments and 12 one-bedroom apartments located in Belvedere. During the financing negotiations for the development of the Red Cross building, the previous management of the SMHDF agreed to allocate a one-bedroom unit to Red Cross without any formal agreement. As a result, the SMHDF has not collected rent on this unit over the years (ANG 4.512 yearly). Table 12 and 13 show the projected and actual rents for the senior homes respectively. The Red Cross permanently occupies one of the homes for which they should provide 24-hour assistance to the tenants when needed. The Red Cross is

supposed to perform a check on tenants daily, however this has not been complied with for the past 14 years. The SMHDF will request the unit to be returned to the SMHDF.

**Table 12: Projected rent for senior homes**

Type of unit	Units	Rent (ANG)	Annual rent
Studio	12	276	39.744
1 bedroom app	12	376	54.144
			<b>93.888</b>

**Table 13: Actual rent for senior homes**

Rent loss	2017	2016	2015	2014	2013
Rent to be received	93.888	93.888	93.888	93.888	93.888
Rent income	88.107	86.444	87.572	86.362	86.651
Loss of rent	<b>5.781</b>	<b>7.444</b>	<b>6.316</b>	<b>7.526</b>	<b>7.237</b>
	<b>6,16%</b>	<b>7,93%</b>	<b>6,73%</b>	<b>8,02%</b>	<b>7,71%</b>

### Mobile homes

After Hurricane Luis, the Netherlands provided 200 emergency homes. In the Performance Agreement it is arranged that the ownership of these 200 mobile homes would be transferred by the Government of Sint Maarten to the SMHDF free of charge. Only 36 have been transferred till date. The transfer of the other 164 units still needs to be formalized, while economically the mobile homes are considered to be owned by the SMHDF.

Originally the prefab shelters were intended for a period of five to ten years, but they are still in use in 2019 for housing the lower income groups.

A decrease in rental income can be seen because a number of homes are no longer rentable due to poor condition. Table 14 and 15 show the projected and actual rents for the mobile homes respectively.

**Table 14: Projected rents for mobile homes**

Mobile homes	Units	rent (ANG)	Annual rent
Mobile homes	200	387	<b>928.800</b>

**Table 15: Actual rent for mobile homes**

Rent loss	2017	2016	2015	2014	2013
Rent to be received	928.800	928.800	928.800	928.800	928.800
Rent income	883.386	881.645	885.321	892.287	903.317
Loss of rent	<b>45.414</b>	<b>47.155</b>	<b>43.479</b>	<b>36.513</b>	<b>25.483</b>
	<b>4,89%</b>	<b>5,08%</b>	<b>4,68%</b>	<b>3,93%</b>	<b>2,74%</b>

### Indexation

In the Performance Agreement is stated that, for the benefit of the Belvedere project, the island territory will provide an annual contribution of ANG 300.000 to be paid via the SMHDF for the

affordability of social rental housing for lower income groups and ANG 33.120 for the senior homes. This contribution is indexed at 3% per year.

Only the tenants of the social houses (318 Belvedere homes, 94 homes at Hope Estate and 24 senior homes with rents up to ANG 900) are eligible for rental allowance.

Every year the tenant must request the subsidy again because they have to provide proof with their income statements that they are still eligible for subsidy. As this subsidy is channeled through the SMHDF, this takes a lot of administrative work each year. Table 16 provides an example of how the subsidy structure works.

**Table 16: Indicative overview of subsidy calculations**

	Tenant A	Tenant B	Tenant C	Tenant D
Income	500	1.000	2.000	3.000
Rent @ 30% of income	150	300	600	900
Rent charged by SMHDF	450	450	775	850
Subsidy	300	150	175	0
Max. subsidy	225	225	387,5	425

The rental allowance (subsidy) is deducted from the contractually agreed upon rental amount on a monthly basis. Because the amount of the subsidy contribution of the Government stays the same each year there is no direct relation between the contribution and the amount that SMHDF is deducting from the rent. There can be changes in the income of tenants which can result in adjusting the amount of the monthly subsidy allowance. SMHDF has to report to the Government yearly about the total amount of subsidy allowances that they have supplied to the tenants.

The 3% indexation is based on the Performance Agreement dated June 23, 1997, chapter 4 sub 4.1, where it is stated that the rental subsidy granted by the Island Government is subject to yearly indexation of 3%. The related receivable has been recognized in the balance sheet since 2009.

## 2. Management fees

SMHDF manages two projects for the Government, Hope Estate 1 and 2. Table 17 shows an overview of these projects.

**Table 17: Overview of rental charges for Hope Estate 1 and 2**

Hope Estate	Type of unit	Units	Rent (ANG)	Annual rent
Hope Estate 1	one bedroom apt	34	450	183.600
	two bedroom apt	36	550	237.600
		70		<b>421.200</b>
Hope Estate 2	three bedroom apt	24	900	<b>259.200</b>

Within the Hope Estate project, some 20 units are reserved for specific target groups, namely mentally and physically handicapped (6 units), supervised rehabilitated youths (4 units) and seniors (10 units).

In 2010 a management agreement (Beheerovereenkomst) for Hope Estate 1 was signed between the Island Territory of Sint Maarten and the SMHDF. The agreement is for 10 years. After this period, the agreement will be tacitly renewed, subject to termination, for the duration of 10 years each time.

The agreement can be terminated prematurely with due observance of a notice period of 6 months.

As such, the SMHDF collects the rent and insures the 70 apartments on behalf of the Government. The SMDHF receives a monthly management fee of ANG 14.100 to cover costs incurred, amongst which salary costs and small maintenance expenses. Included in the management agreement (“Beheersovereenkomst”) are incentives and penalties to improve collections. The proceeds of the rental income are payable to the Government, after deduction of the monthly management fee (ANG 14.100), insurance costs paid (ANG 3.854 per month) and repayment of the initial investment amount (ANG 6.146 per month) as referred in Table 17.

The annual management fee for Hope Estate 1 is ANG 169.200. The profit and loss (P&L) account shows a slightly higher amount over the years. This is probably due to the insurance that is slightly lower than the compensation received for this, but this is negligible. As Hope Estate 1 and 2 are not assets of SMHDF it would be more transparent to conduct a separate administration. The rent and expenses of Hope Estate should be seen as activities of a separate entity.

### 3. Sales

In the period between 2006-2008, some 23 duplex houses in Belvedere were sold to generate an immediate cash flow to the organization. These particular units however gained some of the highest rental incomes and should therefore have been retained to ensure a longer-term income source. In 2013-14, see table below, some houses were even sold at a loss. It signals that immediate income had to be generated to the organization as opposed to a longer-term rental income. This may signal that the strategy of housing sales is driven by short-term cash flow concerns as opposed to strategic management of the housing portfolio.

According to the financial statements, sales have also taken place in 2013 and 2014. Table 18 shows an overview of the sale of houses. This overview shows that there was a negative result of these sales. The SMHDF has stated that in future they will organize sales projects differently so there will be more benefit to the organization.

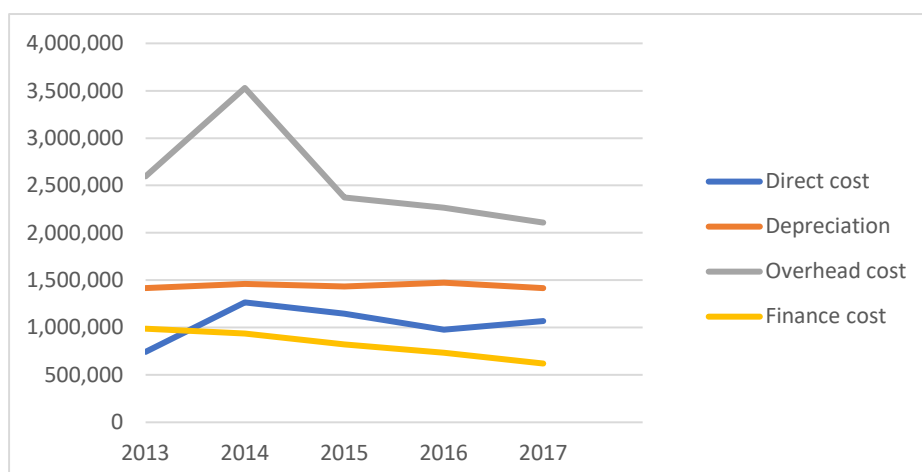
**Table 18: Overview of housing unit sales**

<b>Home sales</b>			
		<b>2014</b>	<b>2013</b>
Housing unit sales (Belvedere and Ebenezer Home sales program)		322.204	1.476.000
Construction cost of housing unit sales		326.678	1.500.992
Result of housing unit sales		-4.474	-24.992

### Expenses

If we look at the expenses, four types of costs can be distinguished (see Figure 4).

**Figure 4: Overview of costs (2013 – 2017)**



**Table 19: Overview of costs in ANG**

	2017	2016	2015	2014	2013
<b>Direct cost</b>	1.067.555	979.029	1.145.801	1.265.781	743.833
<b>Depreciation</b>	1.416.318	1.473.843	1.433.943	1.462.445	1.417.884
<b>Overhead cost</b>	2.108.290	2.265.394	2.374.794	3.529.345	2.597.774
<b>Finance cost</b>	620.772	733.823	821.119	937.133	988.293
<b>Total cost</b>	<b>5.212.935</b>	<b>5.452.089</b>	<b>5.775.657</b>	<b>7.194.704</b>	<b>5.747.784</b>

#### Overhead cost

The overhead costs have been relatively the highest. It has decreased from 2014 until 2017. This is in line with the reduction of staff in that period. Overhead costs consist of all personnel expenses (salaries, pensions, insurance, transport etc.), office space expenses (utilities, security and maintenance), office equipment expenses and other general expenses which are not directly related to the projects. The overhead costs are relatively high due to the SMHDF's small scale of operations.

#### Depreciation cost

The costs of depreciation are stable. The fixed assets are stated at acquisition costs less depreciation calculated on a straight-line basis over the estimated useful life. That declares a stable cost of depreciation as no new projects have been delivered since 2002.

In 2018 an increase can be seen. It is not clear why that is the case. The figures for 2018 have been taken from the internal management report which is not audited and not based on a balance sheet so there can be a difference in valuation principles.

The depreciation costs relate for the biggest part to the rental homes (Belvedere and the senior homes). The mobile homes are written off. A small amount (80.000 -90.000 ANG) is relating to other assets like office inventory, company cars, computers.

#### Direct cost

The direct cost are the costs related to the projects. It can be broken down into 3 different categories:

- Insurance cost
- Land lease
- Maintenance

### *Insurance cost*

After Irma it was estimated that the total damage of the houses was approximately ANG 5,2 million. The insurance company only reimbursed ANG 1,7 million.

There was a situation of being underinsured. Presently the insurance situation is revised through working with an international expert broker. The present insurance expired in June 2019. The broker investigated other insurance possibilities but the cost of insuring the properties is very high on Sint Maarten due to their high-risk profile (hurricane belt). Because of the cost the SMHDF decided to continue the current insurance which has increased considerably comparing with the year before Irma. This means that underinsurance continues to be a risk – as the costs for better insurances cannot be borne at present by the SMHDF.

The insurance costs for Hope Estate are much higher than the contribution that is stated in the management agreement. The SMHDF receives an annual contribution for insurance of ANG 46.250 (see Table 20).

**Table 20: insurance cost by project**

Insurance	2017/2018	2018/2019
Belvedere	155.210	331.058
Mobile homes	6.833	40.898
Hope Estate	31.515	56.810
USD	193.558	428.766
ANG	<b>348.404</b>	<b>771.779</b>

### *Land lease*

Annually the SMHDF has to pay the Government or other property owners rental fees for land. Some of these lands are for development purposes but the mobile homes are also established on locations owned by private owners. A considerable amount of the rent income of the mobile homes goes towards the leasing of land. Annually approximately ANG 260,000 is paid on land lease duties.

### *Maintenance cost*

Maintenance has always been the “closing post” of the expenses. There is no annual maintenance planning. Repairs are done on an ad hoc basis and depend on the cash flow at the moment. As a result, maintenance delays have occurred in recent years.

Based on the annual statements, the expenses for maintenance are shown in Table 21.

**Table 21: Breakdown of direct cost**

	2018	2017	2016	2015	2014	2013
Direct Cost	2.259.334	1.067.555	979.029	1.145.801	1.265.781	743.833
Insurance	627.597	348.404	345.000	345.000	345.000	345.000
Land lease	261.000	261.000	261.000	261.000	261.000	261.000
Rest is maintenance	1.370.737	458.151	373.029	539.801	659.781	137.833
Maintenance per unit	2.031	679	553	800	977	204

In 2018 a considerable increase is seen as a result of the damages caused by Hurricane Irma. The insurance settlement of ANG 1,7 million was paid out in 2018.

During 2008, Foundation Kas Popular (FKP) Curaçao has executed a maintenance audit with the objective to determine the state of the Belvedere houses regarding technical and maintenance aspects. The outcome then was that a great deal of work had to be done for approximately ANG 6,8 million. Because of the lack of money, the SMHDF was not able to execute the proposed renovations.

After Irma, the SMHDF received an estimation by ICE consultants that it would take roughly USD 25 million to repair their damaged buildings (406 units in Belvedere). A new and realistic assessment of the required reconstruction/repairs as of now is urgently needed. As part of the Sint Maarten Emergency Recovery Project I financed by the Recovery, Reconstruction and Resilience Trust Fund, USD 5 million was designated for the repair of 5 towers at Belvedere. The National Recovery Program Bureau (NRPB) is managing that process.

### Finance costs

These costs arise from 2 long-term loans with the FCIB (First Caribbean International Bank). From its start onwards, the SMHDF was financed by the “Nederlandse Participatie Maatschappij voor de Nederlandse Antillen” (NPMNA) with a soft loan for an amount of ANG 7.110.000 and a commercial loan for USD 18.600.000. The commercial loan was guaranteed by Dutch Government (VNP).

During the year 2006 restructuring of the loans took place. The two long-term NPMNA loans were partly repaid with the two new loans and a part was written off by the VNP. In 2006 two loan agreements were signed with the FCIB. In 2012 these loans were restructured.

Table 22 shows the current conditions of the loans.

**Table 22: overview of outstanding loans**

	<b>Loan A</b>	<b>Loan B</b>
Amount	12.800.000	975.000
Currency	USD	ANG
Duration	15 years	15 years
Interest	7,10%	8,00%
Monthly payment	111.660	9.318
Balance due		
Per 01-09-2019	<b>2.177.178</b>	<b>282.638</b>
Final payment	May 2021	July 2022

Prepayment is possible at a 3% penalty for both loans. The loans are repaid on the basis of an annuity schedule. That explains the decrease of the financing costs (only interest). If we look from a cash-flow point of view, the repayment of principal and interest are a huge burden for the SMHDF.

Each year ANG 2,4 million worth of interest and redemption must be paid to the FCIB which is approximately 43% of the SMHDF’s total annual charged rental income to its tenants (the amount that should be received, not the actual rental income).

## Regulatory and institutional framework for SMHDF

### Performance Agreement

Based on the contributions provided by the Netherlands in the context of reconstruction for social housing in 1997, the Island Territory and the SMHDF made reciprocal agreements to realize affordable social housing projects for lower income groups and to create conditions for the financial continuity of the SMHDF. The original Performance Agreement states in detail which projects are or will be executed by the SMHDF, including how these would be financed and the allocation of housing to prospective tenants as well as the supervision thereon. The duration of the Performance Agreement is for 30 years. After the term of 30 years the agreement would be automatically extended for another 10 years. The plan was to evaluate the Performance Agreement each 3 years. This has only been done once, in the year 2000.

The Performance Agreement also stipulates the rental charges which are set at 30% of the gross household income – which means that households cannot be charged over 30% of their income for social rental housing. There have been communications between VROMI and the SMHDF to adjust the rental quote. In this communication, the SMHDF has requested VROMI to lower the rental quote for the lowest income levels to arrive at a more affordable rental amount for those households living on very low incomes. This would require Government to pay additional household subsidies to the SMHDF. The business model of the SMHDF has been based on an income model of charging 12% of the building cost for rent. The SMHDF has proposed to set rental levels at 12% of the market value instead of building cost, which would also allow for a progressive increase of rental income as this is now possible by law. As pointed out earlier this would mean a massive administrative restructure which may increase rents but the costs associated with this may also be considerable as it involves a valuation of market rates as well as additional administrative costs to make the changes.

### Indexation of rent

At the start of the SMHDF, the majority of units were rented out at fixed rental rates. There was no increase foreseen of these rental charges as it was assumed that the income subsidy provided by the Government would be indexed at 3% making up for inflationary effects. Government has intermittently paid out rental subsidies to the SMHDF. Over the last few years, the SMHDF does allow a yearly rental increase at inflationary rates but only with regard to new contracts of the latest tenants. According to SMHDF there are 6 to 7 different types of rental contracts in place, of which some include progression of rent, but others do not. Also, some contracts have incorporated a maintenance fee of 10% (sometimes also referred to as management or development fee in reports) to pay for administrative costs, but not all contracts have included this fee. Lastly, in recent years, some contracts have become yearly contracts, which require yearly extensions. This intervention so far concerns relatively few contracts – but it adds an administrative burden to the organization and there is no clarity yet how the rental increase will be calculated. Altogether, indexation of rent (not the subsidy) remains marginal as most contracts made before 2009 state that rental charges cannot be increased unless there is a turnover of tenants. Tenant turnover rates are relatively low.

### Articles of Association ('statuten')

The Articles of Association have been revised once in 2008. In August 2005 an evaluation of the application of Corporate Governance by the SMHDF has been made by Alexander & Simon, notary at Curaçao. It was concluded that the link between Government and the SMHDF was too strong. Based on this evaluation a review was made to the Articles of Association. The current articles describe mainly the roles and responsibilities of the organization in terms of governance of the SMHDF. In the current structure VROMI appoints three of the five members of the Supervisory Board.

### **Policy and legal framework in which the SMHDF operates**

The SMHDF, in principle, administers the Government's social housing programme, whereby Government policy sets the limits to what is considered social housing. Social housing in the Sint Maarten context is characterized by ceiling of income and rental levels. The maximum income for household eligibility is a monthly income up to 3.500 ANG at commencement of the rental agreement and the rent itself is capped at 30% of the gross household income (in theory progressive over the years, in practice largely not). Furthermore, social housing is a rental option and hence households are only eligible when not owning a house. The tasks of the SMHDF, as the main provider of social housing on the island, therefore has to operate within the policy context of the island.

#### *Housing policies of Sint Maarten*

In 2003 the Housing Vision Sint Maarten – Building Together for a Future (by Lievendekey) was developed, followed by the SXM Housing Vision – Building Book from 2012 (by KAW architecten). Both policy documents were developed externally and it is generally felt that they have not been implemented as a guide for policy. Since 2017, an Implementation Plan Housing Vision Sint Maarten has been developed but so far this is not officially published and has not been reviewed at the political level. These housing policies could provide important guidance for the SMHDF, in particular, in terms of identifying housing need in a broad sense (size of the demand, affordability levels, appropriate products etc.) as well as placing housing in a broader urban development context. The latter is particularly important as the risk assessment in particular in view of hurricanes, but possibly also other climate-induced challenges that may increase.

The lack of guidance from housing policy relates to VROMI being understaffed to adequately steer the housing policy implementation. However, the existing policies give also very little guidance on what is needed; what is envisaged to fulfill these housing needs and which institutions or agents are expected to deliver this through an enabling approach by Government. There is a mismatch or disconnect between housing needs and housing delivery. A good understanding of who is on the waiting list for social housing is lacking. Meanwhile, the SMHDF struggles to fulfill the needs of those on the waiting list as very few units become available for rent. While at the same time, the Government is actively referring potential beneficiaries to the SMHDF to be waitlisted. The income divide is growing in Sint Maarten and the country seems to be changing from a fairly middle-class country to one where there is a small middle class, with an increased low and high-income class.

In addition, there is a lack of institutions that can be tasked with the housing objectives identified by Government. For the formal segment of affordable housing, the SMHDF is the only institution that can be tasked with this; for the informal segment of affordable housing, this is left to individuals with no clear role as to drive developments for this segment. The dualistic economy further complicates the housing market, as private actors in the formal market can exclusively focus on the higher-end of the market. So in reality, the Performance Agreement is in fact the main guidance from Government provided to the SMHDF as the existing policies provide very little support to the SMHDF. This as opposed to many other countries where the housing policy provides an important context. A revision of the Performance Agreement is therefore a higher priority than any of the housing policies.

### **Legal enforcement of rental arrears and evictions**

Earlier reviews of the SMHDF have repeatedly indicated that rental arrears are a problem within the organization. The 2009 KPMG quick scan showed that approximately 50% of tenants are in arrears. Table 5 shows however that after hurricane Irma there is a significant increase in outstanding arrears owned in terms of ANG, but it is not clear what percentage or number of tenants is behind these figures. The latest figures do not give an adequate overview of rental payments but most likely the following categories of tenants still exist:

- On-time and up-to-date payments

- Outstanding payments but a repayment scheme agreed on and being fulfilled
- Outstanding payment but a repayment scheme agreed on and NOT being fulfilled
- Outstanding payment and no agreement yet on a repayment scheme
- Outstanding payment and legal dispute over arrears
- Outstanding payments as approved by court appeal – a number of households have made a legal process on outstanding maintenance and repairs.

After the hurricane some 64 households took the SMHDF to court over outstanding repairs. In the aftermath of the hurricane, the SMHDF struggled to undertake all the necessary repairs – partly because they were awaiting insurance payments. A court settlement has been reached and it has ruled that these 64 households only pay 25% of their rental amount and use the remaining 75% to make repairs themselves – no time limit was given for this court order according to the SMHDF. In which case tenants may consider this lower rental charge for an indefinite period. Also, no clear ruling was made as to whether the SMHDF still has to make repairs or that this is the responsibility of tenants solely.

In addition to tenants paying less rent, there are also tenants that have achieved such high arrear rates, that eviction has become inevitable. Over the years a number of eviction orders have been approved. The enforcement of these eviction orders is not taking place as the appointed ‘Marshall’ is not assisting the SMHDF in executing these eviction orders. No eviction orders were executed in 2017 and 2018; in 2019 evictions took place as a new Marshall was appointed. It appears as if the SMHDF can employ a ‘Marshall’ from elsewhere (Curacao) but this comes at a cost. Eviction orders are always a delicate and complicated process and, where political interference exists, these are even more delicate. This is also shown by the fact that some verdicts are over 5 years old without leading to actual evictions in that period.

### **Partnerships with NGOs**

The SMHDF has some partnerships with other organizations that assist them in fulfilling their mandate. Through the regional social housing umbrella organization Caneye, the SMHDF works closely with other social housing institutes in the Dutch Caribbean. The director of the SMHDF is currently the chair for Caneye. The partner organizations operate, to a certain extent, in similar modus, but each island has a different status in the Kingdom and the relation between each organization and their respective Government is different. Through Caneye there is an extension to Aedes, the umbrella of Dutch social housing institutions, but this is not very active. The SMHDF has working relationships with some of the welfare and aid organizations of the islands, including the Red Cross and the White and Yellow Cross Care Foundations.

### **Institutional framework**

As mentioned before, there are no other institutions providing affordable housing for low-income households in the formal market. Private developers realize housing at a price upwards of USD 200.000-250.000. The local pension fund (APS) has recently taken up an interest in housing assets to expand their investment portfolios and is now developing a project (Oryx Hills) with house prices between USD 185.000 – 250.000<sup>9</sup>. The price ceiling is fixed by Government who has provided the land for this project for a symbolic price for 1 ANG.

#### *Pension funds*

Pension funds can be a potential financing and investment partner for social housing in theory. Furthermore, APS has an obligation to invest 60% of their portfolio in regional (Sint Maarten and Curacao) activities. An interview with APS revealed, however, that at present the SMHDF cannot be considered creditworthy to APS. Their financial administration, as well as financial stability, does not

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<sup>9</sup> Data based on an interview with APS

provide sufficient security for APS to invest. Beyond the financial performance of the SMHDF it is still questionable whether APS would invest in the low-income housing sector. Current activities of their asset portfolio show that they target the middle- to high-income household sector which carries less risk. The current real estate investment activities by APS are rather short-term focused and do not all capture the potential of real estate rental investments whereby long-term revenues are achieved. APS does not provide mortgage financing but is negotiating mortgage backed securities with mortgage banks to improve their real estate housing portfolio performance in the long run. Except for Oryx Hills, other real estate investments have been made in commercial real property mostly.

#### *Construction sector*

The construction sector is dominated by 3 to 4 large contracting firms. There are many small companies but they lack the capacity or strength of balance sheet to attract equity investment or debt finance, acquire equipment and machines, buy materials in bulk, organize labor according to their best productive use, and support research and development, among others. Therefore, these companies cannot the requirements of tendered projects, such as via NRPB. SMHDF has in the past always preferred to work with these small-scale contractors. These contractors can operate as sub-contractors in NRPB projects, but cannot be commissioned directly. The construction sector market is hence rather restricted by the limited competition that exists. In addition, building materials and equipment need to be imported. This escalates the costs for all building activities on the island, including those for the SMHDF.

Given the size of the technical department, small repairs and maintenance is conducted in-house by the SMHDF. Building materials bought on the island can be purchased on a credit line, imported materials cannot. Planned maintenance is, however, not currently considered by the SMHDF – the focus is on repairs and ad-hoc maintenance. Planned maintenance and provisions for future capital repairs are not projected, both in financial and in technical planning. With the current stock slowly progressing in age this is fast becoming a significant risk to the SMHDF's housing portfolio, especially considering the island's position in the hurricane belt.

## 2. Conclusions and recommendations for the SMHDF

The combination of several challenging internal and external factors resulted in the SMHDF currently being in a fragile state and its social housing portfolio being managed on an ad-hoc basis without any perspective of growing this portfolio in the future. The high occurrence of natural disasters due to Sint Maarten's location are obviously making this situation only more challenging.

Below is a summary of the key factors influencing the sustainability of SMHDF's business model.

- 1) Difficult start for the SMHDF:
  - a. Starting years (from '98 onwards) had substantial losses, partly due to expensive Dutch staffing and continuous negative results until 2011;
  - b. Internal financial norms, based on the Performance Agreement, do not always match with Sint Maarten's reality;
  - c. Technical standards of the first projects were based on Dutch building codes, which were not always appropriate for Sint Maarten; and
  - d. Strategy and financing were mainly driven by priorities defined externally from the SMHDF.
  
- 2) Current challenges:
  - a. Government's financial contributions -as per the Performance agreement- often paid with substantial delay, except for the yearly subsidy contribution of 300.000 ANG;
  - b. Substantially delayed payment of approval (Goedkeuringsverklaring) by accountants for SMHDF and the Government;
  - c. Some financial statements (2014 and 2017) have not been approved by auditors for external use;
  - d. Relative high costs of financing (interests of roughly 7%), lack of access to alternative investments, and the payment of the indexation of government subsidies is unpredictable, resulting in lack of investment for development of new social housing;
  - e. Financial department is understaffed and dependent on external consultants for certain senior tasks; and
  - f. Management financial reporting is not per industry standards (e.g. large proportion of financial administration done manually resulting in high potential for mistakes; administrative backlog which is becoming a vicious circle – due to outstanding financial reports, audits are requested and access to credit (finance) is impossible).

Table 23 outlines a series of interventions that are deemed necessary to bring back some level of stability to the SMHDF regardless of which future scenario is adopted. This table highlights the immediate remedial issues to be dealt with as soon as possible in order to bring stability to the SMHDF.

**Table 23: Proposed immediate interventions**

Issue:	Action(s):	Internal resources needed (within the SMHDF)	External resources needed
<b>Issues and actions mainly within the SMHDF's control</b>			
1.Ensure the SMHFF's outstanding issues are resolved so they are not an impediment any more to approve the SMHDF's financial statements of '12-'18	a. Finalize the SMHFF administration of '12-'18 b. Liquidate the SMHFF and settle any outstanding dues between the SMHFF and the SMHDF	- Action (1b.) mainly procedural to be dealt with by directors and supervisory board, little additional resources needed	- Action 1a. already on action list of Versant accountants and consultants
2.Improve the SMHDF's finance function	c. Improve current administration (bookkeeping, accounting, reporting, payroll calculation, etc.) d. Address accounting and management letter issues e. Select a new administration system which can handle social housing management f. Build capacity to operate new system g. Build general financial capacity	- Directors' time - Financial departments' time - Complement finance department with senior staff to be trained by Versant so that the finance function in future will have a strong internal base - New administration package which can handle social housing management	- Action 2c,d,e,f,g already on action list of Versant accountants and consultants - Social housing experts (consultants or staff from a relevant Dutch or regional social housing institute)
3.Finalise outstanding financial statement 2018	h. Catch-up on backlog in administration and accounting	- Director's time - Financial department's time	- Action 3h already on action list of Versant accountants and consultants
4.Improve rent collection and rent management	i. Legal support for actioning eviction orders j. Simplifying and consolidating <sup>10</sup> rental contracts between the SMHDF and tenants	- Director's time - Housing services department's time	- Action 4i. legal support - action 4j. legal social housing expertise
5. Get clarity on outstanding maintenance/repair costs	k. Make a realistic assessment on what are the costs involved in repairing / maintaining the SMHDF's housing portfolio to bring it up to standard	- Directors' time - Technical dept time	- Engineering consultants - Social housing maintenance experts from Caneye network
6.Getting adequate insurance coverage in place	l. the risk profile of underinsurance needs to be assessed	-Directors' time	-Insurance brokers
<b>Issues and actions mainly outside of the SMHDF's control</b>			
7. Find a compromise on outstanding issues between Government and SMHDF	m. Financial settlement regarding outstanding payment regarding Performance Agreement till date. Including: clarification on the correct payments of subsidies and review the reporting and payment of subsidies n. Transfer of government owned units (Hope estate 1 and 2) to the SMHDF where appropriate <sup>11</sup> o. Find a solution on challenges related to private property owner situation of mobile homes <sup>12</sup>	- Directors' time	- VROMI - Mediator - Legal support
8. Reduce financial pressures on SMHDF	p. If possible, restructure the SMHDF's current 2 loans with FCIB (First Caribbean International Bank)	- Directors' time	- Lending bank - Mediator (financial professional)

10 Currently there are 7 rental housing contract types being utilized by the SMHDF, each with slightly different terms and conditions

11 If units from Hope Estate may not be transferred to the SMHDF within the short term, at least separate its administrative management from SMHDF's usual rental income

12 The mobile homes are located on 5 locations with various public and private land owners, based on land lease contracts that are expired

9. Undertake outstanding Hurricane Irma repairs	q. Repair the 5 Towers of Belvedere Estate	- Directors' time	- NRPB
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### 3. Assessment and evaluation of proposed development projects

The SMHDF has prepared multiple development plans for the land parcels under its control over the past years. These development plans are a mix of commercial projects and housing projects at the middle to higher end of the market, mainly driven by the ambition of the SMHDF to generate a surplus to be used as subsidy for re-investment in future social developments. According to the SMHDF, this pipeline of projects is now out of date. As Sint Maarten is still suffering from the aftermath of Hurricane Irma, with a large proportion of the poorer section of society still living in inadequate housing, the SMHDF would prefer to maximize its social housing output.

What is of interest regarding this former pipeline is that that SMHDF does have 10.580m<sup>2</sup> of land available (of which 0,5 hectare is SMHDF's own land, with the rest being on long term lease from Government), which is ready for a housing project to be executed with the building permits and necessary infrastructure in place. In addition, there is another 3 hectares on the SMHDF's former pipeline list where they have a land position but building permits are not yet in place and/or the required infrastructure has not yet been developed. See annex 2 for more details on the land positions of the SMHDF.

Considering that the SMHDF now prioritizes the delivery of social housing projects, the question to be asked firstly is: *what would be the ideal mix of housing projects for the SMHDF to develop so it can fulfill its core objective of providing housing for those who cannot, or in sufficient degree, provide for their own suitable housing accommodation?* This section explores this question in more detail, while also considering what mix of housing projects financially makes most sense for the SMHDF as an organization.

#### Housing needs and affordability

The demand for social or affordable housing in Sint Maarten is not known. Research by KAW Architects from 2012 estimates a need of 3.250 social homes<sup>13</sup> for the period 2012-2020, of which 50% was assumed to be allocated specifically for the elderly. As since 2012 no new social houses were built, one can assume that the demand for such homes has only grown. This high demand can be confirmed by the waiting list for social housing compiled by SMHDF right after Irma, which peaked at 9.000 households. The SMHDF's internal reports show that the current social housing waiting list (covering probably only those with the most urgent demand) may have come down to roughly 1.750 households by Jan 2019, an amount which is still extremely high considering it represents 9% of St. Maarten's total housing stock.

An earlier assessment of Sint Maarten's housing sector undertaken by the World Bank noted that "for the majority of households earning less than USD 2,000 per month -which is roughly the median household monthly income – there is little to no housing options available in the market that are affordable. This includes not just informal sector workers or self-employed persons, but also government employees with regular wages." The same report gives reference to the housing affordability segments and respective housing options availability as given in the table below. As can be deduced from this table, households with incomes lower than USD 2.400 are facing challenges in the local housing market in accessing decent and affordable housing. This means that this income level would be the upper income level where SMHDF would be adding value in providing suitable housing. As households with incomes up to USD 3.000 are also not adequately served through the current housing market, the SMHDF may consider including a proportion of these slightly higher income groups in their future projects in order to both increase the mixing of income groups and to slightly improve the bankability of the SMHDF's own housing projects. Table 24 shows an overview of housing affordability and the housing options available in Sint Maarten.

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<sup>13</sup> At the time a "social house" was defined as having a monthly family expenditure cost of ANG 1.000 or less

**Table 24: Housing affordability and housing options available**

100% gross income /ind/month (USD)	100% gross income /household/month (USD), assuming 2 earners	% of monthly hh income for housing deemed “affordable” (USD)	Affordable monthly housing expenditure (USD)	Current housing options available	
				For purchase	For rent
300	600	10	60	none	None
500	1,000	15	150	none	None
900	1,800	20	360	none	Social rental housing
1,200	2,400	25	600	Studio/1BR; land + incremental	Social rental housing
1,500	3,000	30	900	1.5 BR; land + incremental	1.5 BR rental in a less desirable location
2,500	5,000	30	1,500	2 BR; land + incremental	2 BR rental in desirable location
4,000	8,000	30	2,400	2-3 BR	2-3 BR rental in desirable location
7,000	14,000	37	5,180	3 BR	3 BR rental in good location
10,000	20,000	37	7,400	Luxury apt/villa	Luxury villa or condo in good location
20,000	40,000	37	14,800	Luxury apt/villa	Luxury villa or condo in good location

Data from the Sint Maarten’s 2018 Labor Force Survey, featured in the same WB housing sector assessment study, shows that 74% of households have an income of USD 2.777 or less. If one were to calculate the rent levels that these income groups may be able to afford, this would give the results as given<sup>14</sup> in Table 25.

**Table 25: Household gross monthly income and approximate affordable monthly housing expenditure Source: World Bank (2019), Sint Maarten Rapid Housing Sector Assessment**

Household gross income (USD)	% of households (2018)	HH expenditure for housing deemed “affordable”	Affordable monthly housing expenditure (USD)
1 – 555	14%	10	0 - 55
556 – 1,110	22%	15	83 - 166
1,111 – 1,666	14%	15	166 - 250
1,667 – 2,222	13%	20	333 - 444
2,223 – 2,777	7%	25	555 - 694
2,778 – 3,333	6%	30	833 – 1.000
3,334 – upwards	21%	30	1.000 and upwards
No income	5%	--	--

More detailed research is needed on what is truly affordable for these families within the Sint Maarten context. For the purpose of this report, these ballpark figures can serve to indicate whether future housing options to be offered by the SMHDF are in general in line with this assumed affordability of households. As the majority of the low to middle

<sup>14</sup> There is a policy recommendation embedded in table 25 that the lowest income groups should pay less than 30% of income on housing, based on the communications described on page 26 of this report between SMHDF and VROMI. Further on-the-ground research in Sint Maarten is needed on housing affordability within these communities whether such an adjustment could best be structured. is necessary.

income population is not eligible for a mortgage due to local bank's income level thresholds, we advise SMHDF to primarily focus on social rental housing projects. In the next section a differentiation will be made between:

1. Vulnerable households in need of social assistance (=fully subsidized social housing / public housing), to be funded through governments programs or NGO's, whereby social developers like the SMHDF or others can play a role in delivering and/or managing such type of social housing project.
2. Households which can afford paying rent, but only below market level (=social rental housing), whereby the social housing developer (in this case SMHDF) can avail of public subsidies (e.g. provision of land at preferential conditions by municipalities, grants, or tax breaks) in order to enable the developer to deliver the social housing.
3. Families which can afford paying full market rent or apply for affordable mortgage loans (affordable housing), whereby the SMHDF can choose to start providing housing for these income groups based on strict conditions developed jointly with its stakeholders, in order to improve the bankability of SMHDF's overall housing portfolio.

### Proposed features of a sample future SMHDF social housing project

In the sample project presented in this section we assume relatively small sizes per proposed housing type. As the cost of construction is relatively high in Sint Maarten and also because we observed that on average the size of housing is typically quite large in Sint Maarten, we strongly suggest that more expertise should be brought into the local low to middle income housing sector to come to more affordable housing solutions for the local population, based on the wide range of successful international examples of denser construction and smaller housing units for low to middle income groups. Of course, this should not mean that the result is a lower quality of housing for these income groups, but rather that the housing offered to them is developed more in line with their financial means without comprising the level of comfort.

In order to model a typical future social housing project to be developed and managed by SMHDF we have made the following assumptions<sup>15</sup>:

- Size of project: 100 units
- Mix of housing sizes:
  - o 25% @ 40m<sup>2</sup> (studio)
  - o 25% @ 60m<sup>2</sup> (1 bedroom)
  - o 25% @ 80m<sup>2</sup> (2 bedroom)
  - o 25% @ 100m<sup>2</sup> (3 bedroom)
- 'all-in' construction price @ USD 1.300 (so this includes the land costs, which is assumed to be marginal as this is a social housing project)
- Rental prices per unit
  - o 40m<sup>2</sup> house @ 150 USD/month
  - o 60m<sup>2</sup> house @ 360 USD/month
  - o 80m<sup>2</sup> house @ 600 USD/month
  - o 100m<sup>2</sup> house @ 900 USD/month
- Inflation/year: 3.5%
- Yearly rent increase @ 1%
- Sales expenses 0% (due to high housing need)
- Yearly rent loss @ 15%
- Overhead<sup>16</sup> and maintenance charges of -on average-: 96 USD/house/month (set at 80% of typical Dutch expenditures on overhead and maintenance)

The above structure would result in a total project development cost of USD 9,4 million. On the assumption that the above were to be funded through a USD 6,1 million loan with commercial loan terms that SMHDF currently has,

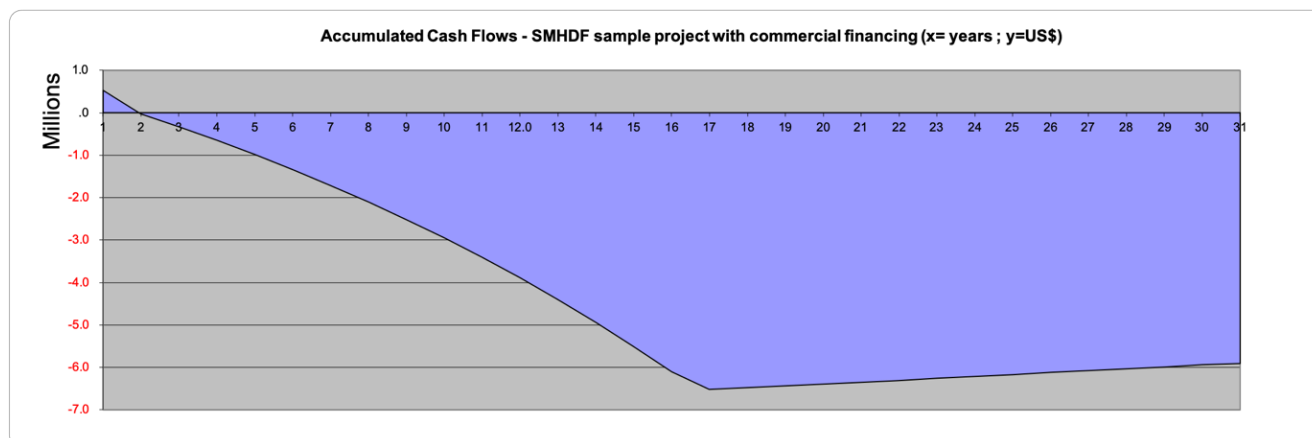
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<sup>15</sup> These assumptions are based on international expertise of the consultant's team, inputs by SMHDF and local housing market information.

<sup>16</sup> As insurances in Sint Maarten are notably higher than in the Netherlands due to its location in the hurricane belt, this figure may have to be increased. Ideally the future overhead and maintenance costs of SMHDF would have to be set at realistic levels based on actual experience in the region or via SMHDF's experience itself in case it can 'test' delivering a project under conditions they assume are realistic for Sint Maarten.

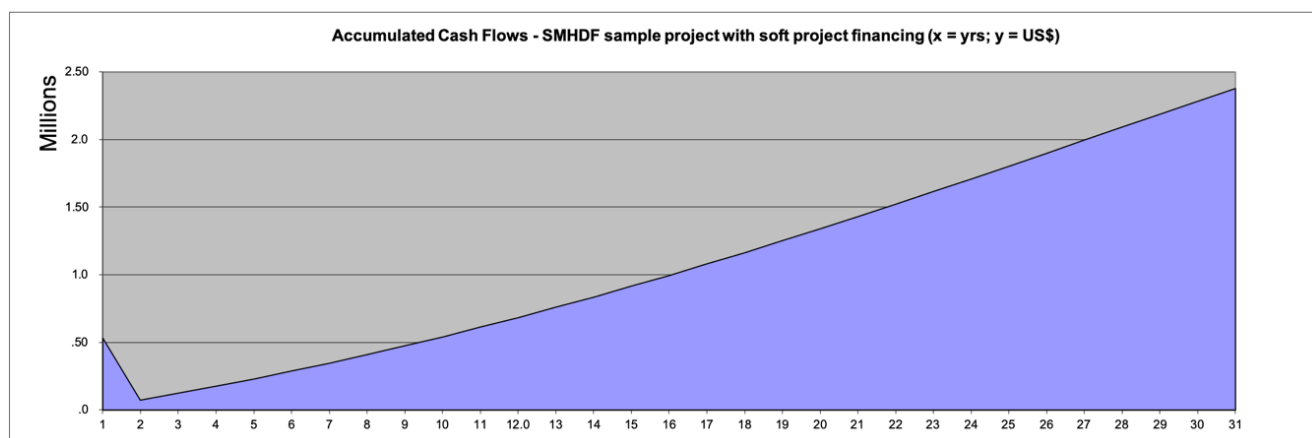
namely: 15 years term @ 7,1% to 8% yearly interest, this would result in the accumulated cash-flows over the term of the housing project as per Figure 5, with a yearly gap to fill in the operational phase of the project of USD 300.000 in year 1, growing over time.

**Figure 5: Accumulated cash flows for SMHDF sample project scenario A**



However, if SMHDF were to avail of more lenient financing terms for the same loan volume of above, meaning a USD 6,1 million loan with a 30 year term and a 4% interest rate, this housing project would become immediately more viable and even generate a surplus over the lifetime of the housing project. Accumulated cash flows for this type of project are shown in Figure 6.

**Figure 6: Accumulated cash flows for SMHDF sample project scenario B**



The above financial modelling mainly shows that the SMHDF could immediately start to serve a substantial range of low to middle income households needing better housing, without being too dependent on yearly financial aid, if it were to get access to (1) serviced land at low price and (2) more affordable “soft” financing. If the SMHDF can be enabled to operate under these conditions, it could serve the section of the population with approximate household incomes between USD 1.000 and USD 3.000, which covers roughly 40% of Sint Maarten’s current population. Household incomes below USD 1.000/month would need to be covered via subsidized programs, and those above USD 3.000/month are already provided for in Sint Maarten’s current housing market. This subsidy could either take the form of a subsidy by an external party or subsidy mobilized by SMHDF themselves through creating a surplus via undertaking more commercial project.

The above financial modeling is not meant to determine the income levels where the SMHDF should focus its interventions on in the future, but rather explore its possibilities if it were to rely on serviced land at minimal price level and affordable “soft” financing only.

## 4. Scenarios for the SMHDF's future development

In order to recommend the most suitable path for the SMHDF's future, we presented the scenarios listed below to the SMHDF executive team and representatives of its key stakeholders, namely VROMI and NRPB.

1. Continue current situation without any changes.
2. Continue current portfolio and focus on improving management and maintenance (incl. repairs)
3. Scenario 2 + grow the SMHDF's portfolio with strong focus on social housing projects, as (an arm's length) municipal housing institution/government entity
4. Scenario 2 + grow the SMHDF's portfolio with strong focus on social housing projects, but expand operation of the SMHDF with the development of middle-income and/or commercial projects to cross-subsidize within the portfolio, while the future relationship between SMHDF and Government does not include any subsidy financial flows
5. Abandon the current operational (rental) model of the SMHDF and develop new model(s) for affordable housing delivery in Sint Maarten (e.g. NGO technical assistance for self-help housing which is developed as a home-ownership model). This could include the sale of the SMHDF's portfolio of housing.

Table 26 shows an overview of each scenario is given against a set of relevant indicators.

**Table 26: Scenarios for the SMHDF future development**

Scenario	Impact on social housing availability in Sint Maarten	Relationship with government	Additional capital investment inputs	Additional capacity building inputs
1. No change	0	similar till date	None	none
2. Basic improvements, no growth	0	similar till date	Only for repairs current portfolio	low
3. Portfolio growth, closer ties with government	increase	SMHDF = government	High (heavy reliance on government's financial subsidies or guarantees to enable soft financing and subsidies to reach households below USD 1,000/month)	High (for the short term)
4. Portfolio growth, more distance from government	increase	SMHDF = independent (+ exact relationship at governance level with government to be defined)	High (only reliance on government's financial subsidies if no soft financing mobilized by SMHDF's themselves nor cross-subsidies from higher income or commercial projects)	Highest (for the short to medium term, considering SMHDF should be equipped eventually to also undertake commercial / higher income projects)
5. Dismantling portfolio, change of model	decrease, possibly loss of all social housing units developed till date	SMHDF = non-governmental organization	To be determined	To be determined

All parties agreed that, on the basis of the challenges in the SMHDF's current relationship with Government and the huge (social) housing needs of Sint Maarten, the scenario as proposed under Option 4 would be the preferred one. If all stakeholders agree to proceed with such a scenario, there would of course still be a relationship between Government and the SMHDF, but at a more distanced level. This means that a new agreement between these two parties would need to be developed, determining the expectations that Government has from the SMHDF in terms of social housing delivery for which it subsequently may make available government support such as: serviced land for both social housing and more commercial developments, guarantees to avail of soft financing, and other types of support that will make it more feasible for the SMHDF to deliver its agenda. In order to facilitate the development of the social housing sector in Sint Maarten, and also due to the small scale of the country, it is recommended that SMHDF

is allowed to pilot this new structure for several years. Based on the actual experiences in those years of experimentation and learning, a new institutional set-up between the SMHDF and Government would be institutionalized.

## 5. Overall conclusions and way forward

### Conclusions

The SMHDF is currently in an unstable condition where it is unable to grow its portfolio nor in the position to maintain it properly and is faced with a high level of rent arrears, mainly due to challenges originating from their starting years and the on-going impact of the aftermath of Hurricane Irma. The organization got off on a bad start due to losses in its first few years because expensive Dutch consultants had to be paid by the SMHDF, its financial and technical norms were being based on Dutch references with limited applicability to Sint Maarten's context, and lastly its organization's strategy and financing was mainly driven by priorities defined externally from the SMHDF.

Exacerbating the above situation is the fact that due to having to make staff cuts, the SMHDF also minimized its financial department. This has created challenges for the core finance function in the organization and means the financial reporting is currently not up to industry standard while also being faced with a backlog. The organization is working towards improving that in collaboration with external accountants and consultants. However, as senior financial tasks are dealt with by external consultants this also creates a risk to the SMHDF.

Even though the SMHDF's organizational set-up is in line with similar organizations in this phase of organizational development -bar its financial department- their current social housing model is not stable nor sustainable:

- The relationship between Government and the SMHDF as defined in the Performance Agreement has never functioned well in practice, e.g. with subsidies being paid out with extreme delays, sometimes after 11 years only;
- The SMHDF has currently limited access to commercial financing due to many of the last few years' financial statements not being approved by auditors for external use, which basically puts a stop to any new social housing construction;
- The government policy on rental management is highly politicized with eviction orders not often being enforced and the SMHDF's own practice of managing contracts being a fairly complicated one with 6-7 different tenant rental contracts currently being in operation;
- The backlog in maintenance and repairs needed in the SMHDF's portfolio, to a large extent due to the damages of hurricane level, stands at such a high level that there is a risky level of outstanding rental payments, which puts a burden on the organization.

Many of the issues that the SMHDF is faced with are already dragging for many years such as the outstanding transfer of properties from Government to the SMHDF, but also internal issues like the SMHDF starting to use an internal administrative package that is fit for a social housing organization like theirs. There is an urgent need to start addressing these outstanding issues.

The organization needs its capacity strengthened in many areas such as: financial administration, maintenance management and planning, etc. It is crucial that whatever capacity that is developed is truly owned and internalized within the SMHDF. For this to happen ideally a long-term relationship would be established with peer organizations in the region of Sint Maarten or -if at all possible- with a Dutch social housing organization or experienced consultants with both experience in the Dutch social housing model as well as knowledge of international best practice in the field of social housing.

The SMHDF and its stakeholders agree that for the future, a growth scenario with more distance from government (as per scenario 4 of Chapter 4) is the most promising one for the SMHDF to start reaching its potential. In order to unleash the SMHDF for this situation, the current outstanding issues between Government and the SMHDF would need to be settled. These consist of:

- financial settlement regarding outstanding payment with regard to Performance Agreement till date;

- transfer of government owned units (Hope estate 1 and 2) to SMHDF where appropriate;<sup>17</sup>
- find a solution on challenges related to private property owner situation of mobile homes.<sup>18</sup>

If most of the ‘immediate remedial measures’ that are currently holding back SMHDF (as per the table in Chapter 2) can be resolved, there is a window of opportunity for the SMHDF to regain stability and be ready to live up to its potential and start delivering much-needed social housing, especially considering that a large proportion of the needed social housing could be delivered with soft financing and support from Government in terms of provision of land at a low price for building social homes and also commercial real estate.

Whatever scenario is chosen for the SMHDF’s future operations, a sustainable solution needs to be found for SMHDF’s current commitments in the ongoing rental portfolio of 769 units. It would be useful to review quick-wins in improving the management of that portfolio, e.g. consolidating the many types of rental contracts, each with different terms and conditions.

## Way forward

Recovery phase (3-6 months): Resolve as much of the remedial measures as soon as possible. If all stakeholders of SMHDF want the organization to become the ‘engine’ for much-needed social housing development on the island, all efforts should be put into bringing back stability. Mediation through external partners may be necessary to resolve any of the issues that are outside of the SMHDF’s control.

Intermediate phase (18-36 months): Once the SMHDF has regained stability, start an intermediary phase whereby a solid capacity building program and a concrete new social housing project on the basis of more affordable and suitable housing models for Sint Maarten will be delivered by the SMHDF, to be financed via soft financing and subsidies through external parties. On the basis of that actual on the ground project, define norms and financing set up for a longer-term program. This will help generate actual data on what should be norms for issues such as maintenance etc., and bring about a whole new positive momentum for the organization.

Longer term phase (after 18-36 months onwards): Enable the SMHDF to also undertake higher income and commercial projects in order to improve its overall bankability and cross-subsidize lower income groups. This will reduce or eventually even stop the dependency on external parties for subsidies to SMHDF’s (clients).

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17 If units from Hope Estate may not be transferred to SMHDF within the short term, at least separate its administrative management from SMHDF’s usual rental income

18 The mobile homes are located on 5 locations with various public and private land owners, based on land lease contracts that are expired

## 1) Annex 1: Performance Agreement Evaluation

This annex provides an analysis of the Performance Agreement between SMHDF and Government. It has already been foreseen that this Performance Agreement is to be renegotiated. VNG International has already offered support to this process to VROMI. For this revision process it is important that the SMHDF is also supported to negotiate their side in a revised Performance Agreement. Also, it is essential that those who provide support to this process are well-versed into the Sint Maarten context or have experience in developing Performance Agreements in similar situations where Government and other institutional structures are fragile.

### The Performance Agreement (June 1997)

The Performance Agreement was supposed to form the basis for the implementation of various public housing projects. Partly through the implementation of these projects, the SMHDF could look forward to a financially healthy future, although the margins were tight from the start.

Each 3 years (in 2000 for the first time) the Performance Agreement has to be evaluated. In April 2000 an evaluation was carried out by RIGO Research en Advies BV. A summary of the main conclusions, which were accepted and adopted by the Executive Council (Bestuurscollege) of St Maarten, indicates among other things:

- The situation at the time of the evaluation deviated strongly from what was assumed in the Performance Agreement.
- The business plan then drafted was no longer usable.
- The financial position of the SMHDF was so bad that the continuity of the SMHDF was at stake.

Based on this evaluation report, a package of measures was recommended. One of the recommendations was to draft a new Performance Agreement. However, little has been done with the recommendations and the Performance Agreement of 1997 was never updated.

### Compliance with the Performance Agreement

Since the Performance Agreement still applies and to a certain extent determines the policy of the SMHDF, a further analysis of the Performance Agreements has been made.

The Performance Agreement consists of 7 articles, some of them are divided in sub-articles.

- 1 Projects
- 2 Assignment and income assessment
- 3 Supervision
- 4 Contributions of VROMI
- 5 Rent policy
- 6 Duration and evaluation
- 7 Applicable law

#### 1 Projects

*1.1 The Government will transfer the ownership of the 200 mobile homes (emergency homes) for free to SMHDF.*

Only 36 houses were transferred to the SMHDF of the total 200. The SMHDF is the economic owner for more than ten years; Government is land owner of one location. The other four land owners are private persons; the SMHDF pays the land lease.

*1.2 The SMHDF undertakes an effort obligation to find an alternative to the temporary lease of the land within the existing period of 3 years that the land for the emergency dwellings has been rented.*

This is still pending. The mobile homes have not been relocated. The mobile homes are located at 5 different locations on the island. At one location (Cole Bay, 24 units) the owners have requested the removal of the units from the property since December 2012. SMHDF is seeking to purchase several parcels of land for the relocation.

*1.3 The Government will pay for the (possible) acquisition of land to relocate the mobile homes for a maximum of Naf 2,3 million. This land will be leased to the SMHDF for a maximum of Naf 160,000.*

*1.4 In case of relocation, the SMHDF will pay for these costs*

Both 1.3 and 1.4 have not occurred yet.

*1.5 In case the long lease agreements can be extended and the lease expenses surpass the amount of Naf 160.000 per year, the difference will be subsidized by the Government.*

The total land lease for the mobile homes is above Naf 160.000. The Government have not subsidized this.

*1.6 The Government transfers the land for the 474 social rental houses in Belvedere for free to SMHDF*  
Has been complied with. The Belvedere project is fully owned by SMHDF (land and buildings).

*1.7 and 1.8 Articles have to do with the contributions of the Dutch Government.*

Not relevant for the relation between the SMHDF and VROMI.

*1.9 The Government transfers the land for 96 social rental houses on Hope Estate for free to the SMHDF.*

Has not been complied with. This project was part of the original reconstruction plan of 1996 but has never been executed as planned. The Government of St Maarten have realized the construction of 70 rental houses (Hope Estate 1) and 24 rental houses (Hope Estate 2) with funds from the "Heraanwending Havengelden" in 2010. In 2005 a final agreement was concluded with respect to a loan and shares in the Port of St Maarten. Under this agreement it was stipulated that the discharged resources would benefit the island territory of St Maarten. The Government is the owner of the land and the houses at Hope Estate. The management of the houses is outsourced to the SMHDF against a fee for these services. The arrangements between the SMHDF and the Government are established in a Management Agreement for Hope Estate phase 1 (Beheersovereenkomst Hope Estate 1). No management agreement has been established for the 24 units of Hope Estate 2.

*1.10 The Government transfers the land for 42 senior homes in Belvedere for free to the SMHDF.*

Has been complied with. 24 senior citizen houses have been realized.

The land and houses are properties of the SMHDF.

## **2 Assignment and income assessment**

*2.1, 2.2 and 2.3 The SMHDF assigns the 200 emergency (mobile) homes, the 474 social houses in Belvedere and the 96 in Hope Estate according to the assignment criteria and drafts a report of all assignments within 3 months of delivery of the houses. The report is including a statement of the accountant.*

Partly complied with. The SMHDF have assigned and is assigning the houses according to the policy based on a simple system of points collected. To be eligible for a home, one must be registered as a home seeker with the SMHDF. The criterion is that one must be 25 years or older and must have been registered on the island for two years. The home seeker with the highest number of points is the first to be eligible for the available, suitable accommodation. Points are obtained by waiting time, not being in possession of independent living space and the lack of necessary facilities such as water, toilet and electricity. Reporting on the assignments is not in place. It is not clear yet if the required reports including a statement of the accountant in the past (since 1998 when the mobile homes were assigned) have been delivered.

*2.4 The SMHDF establishes yearly a subsidy table in order to determine the level of subsidy. The SMHDF performs an annual income assessment for the tenants and determines the amount of the allowance based on the table.*

Partly complied with. The SMHDF does not establish a subsidy table. Each year the tenants have to apply for subsidy again. Based on their income statements the SMHDF determines if the tenant is still eligible for subsidy. If tenants don't apply for subsidy, the SMHDF do not have the latest information about the household income.

*2.5 The Government gives the SMHDF the cooperation that is needed to collect the required information about the income of the tenants for the income assessment.*

## **3 Supervision**

*For the purpose of public housing supervision, the SMHDF provides an annual policy plan including a 4 years forecast to the Government. No later than 6 months after the end of the financial year the SMHDF has to present their annual financial statements. The government will instruct SOAB to form an annual opinion on the financial continuity of the SMHDF.*

SMHDF has submitted financial reports to Government, usually with some delay. Annually, the SOAB were to audit the SMHDF on financial sustainability. Their last and only report dates back to 2002. Currently another audit is being undertaken by SOAB with a report expected shortly.

#### **4 Contributions Government**

*4.1 For the benefit of the Belvedere project, the island territory will provide an annual contribution of Naf 300,000 to the SMHDF for the affordability of social rental housing for lower income groups. This contribution is indexed at 3% per year and is paid in monthly installments.*

The Government pays yearly the initial subsidy of Naf 300,000 but the indexation is not paid on a regular basis. Since 2015 the received subsidy has decreased. A possible explanation can be that the number of applications for subsidy has decreased. Many tenants are living in the houses since the start of the project and are not qualifying for a subsidy anymore because their household income has increased while the rent has stayed the same. In March 2019 the Government paid a large amount of the outstanding balance.

In the Performance Agreement it is agreed upon that an annual flat amount of ANG 300.000 will be paid by the Government in order to distribute to the tenants who are eligible for subsidy. As this flat amount was already agreed in 1997, one can question to what extent this still covers the subsidy needs of SMDHF's tenants. The current SOAB audit of SMHDF will give more clarity on this issue.

*4.2 For the benefit of the project Hope Estate, the island territory will provide an annual contribution of Naf 41.484 to the SMHDF for the affordability of social rental housing for lower income groups. This contribution is indexed at 3% per year and is paid in monthly installments.*

Not complied with. The tenants of Hope Estate don't receive any subsidies.

*4.3 In consultation with the SMHDF, the Government can, when a project is delivered, buy off the annual contribution for the period up to 2000.*

Not relevant and has not occurred.

*4.4 New agreements will be made with regard to the payment of contributions by the Government starting from 2001 after the evaluation in 2000.*

Not complied with. The recommendations have not been followed-up.

#### **5 Rent policy**

*5.1 The Executive Council (Bestuurscollege) will take the initiative with the Government to have the current maximum rent limit of 12% of the building costs (historic construction costs or stichtingskosten) adjusted in the rental policy of the Netherlands Antilles to a maximum rent limit that is indexed annually with the cost of living.*

Not complied with. The maximum rent limit of 12% of the building costs still exists. The rent is not increased. The rent policy is outdated. This needs to be amended.

#### **6 Duration and evaluation**

*6.1 and 6.2 The duration of the Performance Agreement is 30 years. After the term of 30 years the agreement will automatically be extended for another 10 years.*

*Each 3 years (in 2000 for the first time) the Performance Agreement has to be evaluated. Based on this evaluation the Performance Agreement can be adjusted.*

Not complied with. In 2000, an evaluation took place but the Performance Agreement have not been adjusted according to the recommendations.

#### **Financial consequences of the Performance Agreement and the Management Agreement for Hope Estate.**

As a result of the above-mentioned agreements, the Government and the SMHDF have mutual financial obligations. The Government has to pay the subsidies including indexations to the SMHDF while the SMHDF is receiving the rent for the Hope Estate units on behalf of the Government.

- 1 The Government has to pay the subsidy for the social houses in Belvedere including the indexation.
- 2 The Government has to pay the subsidy for the senior homes in Belvedere including the indexation.
- 3 The Hope Estate 1 receivable pertains to the investments made for a project in Hope Estate. The work in progress of Hope Estate amounted to approximately ANG 689.000, which was capitalized in 2010 and based on agreements with the Government of St. Maarten. The amount is repaid by the Government in monthly installments of ANG 6,146 as part of the management agreement (*Beheersovereenkomst*). In 2021 the total investment will be paid back.
- 4 As part of the management agreement, the SMHDF manages the social housing project Hope Estate 1. As such, SMHDF collects the rent and insures the 70 apartments on behalf of the Government. The SMDHF receives a

monthly management fee of ANG 14,100 to cover costs incurred, amongst which salary costs and small maintenance expenses. Included in the management agreement are incentives and penalties to improve collections. The proceeds of the rental income are payable to the Government, after deduction of the monthly management fee (ANG 14.100), insurance costs paid (ANG 3.854 per month) and repayment of the initial investment amount (ANG 6.146 per month) as referred to above. As mentioned earlier, these proceeds are not paid to Government but rather reserved on a separate account.

- 5 No agreement has been established for the management of the 24 units at Hope Estate 2. The net profit of Hope Estate 2 on behalf of Government is based on the received rental revenue from Hope Estate 2 and expenditures of the insurance premiums and maintenance fees are deducted.
- 6 Other government receivables. In case the long lease agreements can be extended and the lease expenses surpass the amount of Naf 160.000 per year, the difference will be subsidized by the Government.

## 2) Annex 2: Land positions SMHDF

	size of land (m2)	readiness to build	tenure of land	public infrastructure (roads, water, sewer, electricity) up to site?
<b>Blue Mountain</b>	5.400	building permit ready	owned by SMHDF	ALL infra in place
<b>Border Point Community Bldg.</b>	1.660	existing building on site, building permit ready	long lease (from gov?) For social housing purposes only	ALL infra in place
<b>Senior homes</b>	3.520	January, 2014 SMHDF broke ground, building permit ready	long lease (from gov?), conditions lease? For social housing purposes only	ALL infra in place
<b>Shelter (Belvedere pool)</b>	966	meant for a calamity shelter? Status building permit?	long lease (from gov?), conditions lease? For social housing purposes only	ALL Infra in place
<b>St Peters</b>	2.520	status building permit? Possible permit allows for (dense) social housing?	owned by SMHDF	Minimal infrastructure required.
<b>St Rose Lane</b>	8.500	status building permit? Possible permit allows for (dense) social housing?	owned by SMHDF, access to land is a challenge	requires complete infrastructure
<b>Upper Princess Quarter</b>	7.440	Requires drawings etc., etc.	long lease (from gov?), conditions lease? For social housing purposes only (72 units)	requires complete infrastructure/ demolition works required.
<b>Foga</b>	11.229	Building permit ready for EXECUTION of 32 units/ The SMHDF would like to expand this project with 4 towers consisting of each 16 units - 64.	awaiting for existing property to be transferred in long lease by Gov	ALL Infra in place / The SMHDF would like to expand this project with 4 towers consisting of each 16 units - 64.
<b>TOTAL</b>	<b>41.235</b>			