



Cayman Islands

**SPECIAL FORENSIC AUDIT
FINAL REPORT OF
THE AUDITOR GENERAL**

On the

**National Housing and Community
Development Trust**

Cayman Islands Audit Office

30 August 2005

TABLE OF CONTENTS

AUDITOR GENERAL’S COMMENTS	1
Summary of Findings.....	2
Future Viability of NHCDT Operations.....	2
Review of the Process of selecting Home Owners.....	3
Financial Update.....	3
Special Purpose Funds.....	3
Management of Trailers.....	4
Acknowledgements.....	4
FUTURE VIABILITY OF NHCDT OPERATIONS	5
A Lack of Policies and Procedures.....	5
Ability of the NHCDT to meet its Bond Obligation.....	5
Background.....	5
Payment of the interest portion of the bond.....	6
Collection of mortgage payments versus bond principal repayment obligations.....	6
REVIEW OF THE PROCESS OF SELECTING HOME OWNERS	8
Background.....	8
Audit Findings.....	9
Table 1: Income of homeowners outside the selection criteria.....	10
Summary.....	12
FINANCIAL UPDATE	14
Mortgage Agreement.....	14
Mortgage Payments.....	14
Table 2: Homeowners in arrears as at August 2, 2005.....	14
Status and circumstances of house rental units.....	15
Rental revenue collected in accordance with rental agreements.....	16
Table 3 – Expected vs. Actual Rent, February through July 2005.....	16
Table 4 – Analysis of Outstanding Rent for the six-month period February through July, 2005.....	16
SPECIAL PURPOSE FUNDS	18
Special Purpose Donation used for Mortgage Payments.....	18
MANAGEMENT OF TRAILERS	19
Background.....	19
An Exit Strategy has not been developed.....	19
Adequate criteria exist to assess the eligibility of applicants.....	20
Management of the trailers.....	20
Table 5: Outstanding Trailer Rent as at 31 st July.....	21
Who will pay for the utilities costs?.....	21
Safety during the threat of hurricanes.....	22
Summary.....	22
APPENDIX A	23





AUDITOR GENERAL'S COMMENTS

On 24 May 2005 I was requested to attend a special Cabinet meeting. At that time, allegations were made relating to the National Housing and Community Development Trust (NHCDT). Subsequent to that meeting, under subsection 59(c) of *The Public Management and Finance Law (2003 Revision)* the Governor requested the Auditor General on 25th May 2005, “to carry out an urgent special forensic audit of the National Housing and Community Development Trust from the inception of the Affordable Housing Initiative”. After reviewing the issues, I came to the conclusion that an examination was warranted and I decided to accept the engagement.

The mandate from the Governor requested that the audit be done in two parts. The first part was to review all the activities of the NHCDT from 1 September 2004 to 25 May 2005 and to report by 17th June 2005. This report was completed as mandated and delivered to the Governor on 17th June 2005.

The second part of the mandate requested a review of all activities of the NHCDT from its inception to 25th May 2005. This report was requested by 30th August 2005 and is the subject of this report.

This report is the third report issued on the NHCDT recently by my Office. The first was issued in April 2005 and reported on the process of tendering and construction of the Affordable Housing Initiative (AHI). It covered the period from the inception of the NHCDT until just before Hurricane Ivan in September 2004 (including a post hurricane update). It should be noted that the AHI was the major focus of the NHCDT during this time. The June 2005 report covered all activities from 1 September 2004 until 25 May 2005. This final report looks at the few remaining issues that were not covered in those two reports. Readers of this report are encouraged to read the other two reports mentioned along with this one to obtain a complete understanding of all activities of the NHCDT.



The specific items covered in this report include:

- Future Viability of NHCDT Operations
- Review of the Process of Selecting Home Owners
- Financial Update
- Special Purpose Funds
- Management of Trailers

We have also provided recent information as required to update readers of our June report.

We met with the Permanent Secretary, Ministry for District Administration, Planning, Agriculture and Housing, and the Chair of the NHCDT Board of Directors. They were in substantial agreement with this report. This report, along with the two previous ones, raises many issues regarding the management of the NHCDT. The Permanent Secretary and the Chair of the Board feel that they will require some time to formulate a proper management response to the recommendations we have made. Therefore, they will issue a separate response in the future.

Summary of Findings

Future Viability of NHCDT Operations

As presently constituted, the AHI will have 99 homes compared to the 200 originally planned. My analysis concludes that the current situation is financially unsustainable. Even under the best scenario, the NHCDT would require US\$400,000 per year from Government to meet its bond obligations. Under the current collection regime where only 35% of mortgages are collected, the annual shortfall could be as high as US\$900,000.



Review of the Process of selecting Home Owners

I am appalled at how homes were allocated under the Affordable Housing Initiative. A fair process was not used. Homes were awarded in a hasty manner, with little regard for the very limited selection criteria or those with the most need. There was a clear lack of oversight and due diligence on the part of the NHCDT Board. There were clear instances of political interference, and other instances of alleged political interference. Some of the successful applicants, had a fair process been applied, may have been successful anyway. However there are successful applicants that did not deserve to get a home, and would not have received one had a fair process been applied.

Financial Update

In my report in June, I noted that 20 homeowners owed CI\$13,618 to NHCDT. By 2nd August, 50 homeowners owed CI\$58,136. As can be seen, non-payment is quickly becoming the norm rather than the exception for those home owners under the AHI. A clear and appropriate debt policy needs to be developed and the Collections Officer needs to be more successful in collecting outstanding debts.

The NHCDT also continues to rent homes to individuals and companies. There were substantial arrears on these accounts.

Special Purpose Funds

A special purpose fund was given to NHCDT to assist individuals who did not have the down payment for their home. My review indicates that these special purpose funds were used for other purposes and that the NHCDT has breached its fiduciary responsibility to the donor. I urge the NHCDT to rectify the situation by reversing the allocation of the misused funds.



Management of Trailers

The NHCDT has assumed responsibility for the trailers brought to Grand Cayman by the Cayman Islands Recovery Operation. There are many problems associated with these trailers including:

- Still no clearly defined exit strategy despite assurances that such a policy would be developed before the vehicles arrived on island;
- Tenants who moved into trailers without a deposit, their first month's rent or a lease;
- Monies owed in excess of \$50,000; and
- Unclear situation on how utilities will be paid.

Acknowledgements

I would like to acknowledge those who assisted my Office in the preparation of this report including management and staff of the NHCDT.

Many thanks also to my staff who again worked diligently in preparing this report.

Dan Duguay, MBA, CGA
Auditor General
George Town, Grand Cayman
Cayman Islands

30 August 2005



FUTURE VIABILITY OF NHCDT OPERATIONS

A Lack of Policies and Procedures

1.01 Clearly communicated policies and procedures are essential to the survival of any business, in order that the business can operate efficiently. The NHCDT is a relatively new organization, having been created on the 29th September 2003. Since its start-up, the NHCDT has not developed any business policies or procedures, in such areas as Accounting, Human Resources, Purchasing, etc. Specifically, to date, the NHCDT has no bad debt policy and no contracting procedures policy. Considering the nature of the activities of the NHCDT, these two policies are important ones.

Recommendation

1.02 The NHCDT should, as soon as possible, develop adequate policies and procedures which can be implemented and followed.

Ability of the NHCDT to meet its Bond Obligation

Background

1.03 In October 2004, the NHCDT secured a bond issuance from Scotia Capital in the amount of US\$14.5 million. The interest rate is fixed at 5.238%. According to the amortization schedule (see Appendix A), bi-annual payments commenced 28 April 2005. The first two payments are interest only (US\$379,755). Commencing 28 April 2006, payments increase to US\$607,032. These payments include a payment towards both interest and principal. The amortization schedule shows that these bi-annual payments will result in the repayment of the loan by October 2024.



Payment of the interest portion of the bond

1.04 At as 31 July 2005, the balance in the NHCDT's US\$ account was \$2,019,996. The account earns interest at approximately 0.2% per month (2.4% per annum). At best the NHCDT has enough money in the bank for 4 more semi-annual bond payments, through April 2007. Therefore, funds will need to be collected in order to be able to meet the remainder of the bond interest requirements. The analysis below compares the possible cash inflows from mortgage payments and compares those to the required bond repayments.

Collection of mortgage payments versus bond principal repayment obligations

1.05 At the current level of 77 homes sold and 14 rentals, the maximum income generated by the NHCDT every 6 months is CI\$325,404 or US\$406,755. This assumes that 100% of the revenue will be collected. If all 99 homes were sold, the maximum possible income every 6 months would be CI\$327,330 or US\$409,162.

1.06 At the present level of 35% collection of revenue (see **paragraph 3.04**), the NHCDT would only have a cash inflow of CI\$114,228, or US\$142,785 every 6 months.

1.07 To determine if the NHCDT is financially capable of meeting its bond obligation under the present circumstances, I have compared the cash inflows of the Affordable Housing Initiative (AHI) to the continuing bond obligations. In doing so, a number of assumptions had to be made. I should emphasize that the analysis below was done using the most optimistic assumptions. Firstly, it assumes a 100% collection rate for mortgage payments. This is a far cry from the present rate of 35%. Secondly, it does not account for the substantial "other" costs of running the project. These would include a substantial portion of the administrative costs of the NHCDT as well as any additional costs of maintaining common property, etc. We do note that the NHCDT has a certificate of deposit of CI\$1,007,945 (balance as at 21st July) which earns interest at the rate of 2.63%. The interest earned on this certificate covers the monthly rent that the NHCDT pays.



1.08 If all the homes were sold, and making the assumptions above, the maximum income that the AHI could generate every 6 months would be roughly US\$410,000. The interest and principal repayments of the bond are US\$607,000. This means that there would be a cash shortfall of over US\$200,000 every 6 months or over US\$400,000 a year. If we assume a collection rate on mortgages of the current 35%, the cash shortfall increases dramatically. The 6 month cash shortfall under such a scenario would climb to US\$461,000 or an annual rate of over US\$920,000.

1.09 It is therefore impossible to escape the conclusion that the Affordable Housing Initiative is financially unsustainable as it is presently constituted. Simply stated, as presently configured, NHCDT will need a yearly contribution from Government of between US\$400,000 and US\$900,000 so that the NHCDT can make its bond payments. These numbers do not include the cost of administering the NHCDT nor do they include additional costs to maintain the common properties. Clearly the NHCDT needs to develop and sell more houses, and ensure a better collection rate, if it intends to be able to meet its bond obligations without receiving financial aid from the Cayman Islands Government.

Recommendation

1.10 As a matter of urgency, the Board of the NHCDT should review the current situation and determine how the Affordable Housing Initiative can generate sufficient revenue to meet, at a minimum, the ongoing bond payments.



REVIEW OF THE PROCESS OF SELECTING HOME OWNERS

Background

2.01 The National Housing and Community Development Trust sold 77 houses between 1st October 2004 and 31st December 2004. To date, no additional houses have been sold. All of the houses are mortgaged by the NHCDT. The mortgages are amortized over 20 years at a fixed interest rate of 8.5% per annum.

2.02 The selection criteria for the allocation of houses was based on the NHCDT mission statement, primarily that applicants should be Caymanian or have Caymanian status, and should earn less than twenty four thousand dollars per annum (CI\$24,000). To our knowledge, no other selection criteria were used.

2.03 After Hurricane Ivan, there was a pressing need to find homes for people. The NHCDT had homes available, and the NHCDT Board put pressure on the NHCDT managers to sell the homes as quickly as possible. Although the mission statement indicated basic selection criteria, discussion with the management of the NHCDT revealed that no concrete criteria were developed and adhered to in selecting who would receive a home.

2.04 The fairest process to allocate the homes under the Affordable Housing Initiative would have been for the NHCDT to develop a set of criteria for assessing the relative needs of the applicants and to assess all applicants against those criteria. The NHCDT would then have had to decide who had the most need, and allocate the homes accordingly. In addition, we expected the Board to be involved heavily in the process itself and certainly to be the final decision maker. Our review has indicated that although initially the Board was involved in approving applications, at some point this task was delegated to the managers.



Audit Findings

2.05 Our review of the process of determining who should get the homes created under the AHI indicated that essentially there was no process in place. There was an initial attempt to provide minimal assessments of applicants, but this was done for less than 10% of the people that applied for a home. In fact, our review indicated that there was no functioning process at all. Our discussions with NHCDT staff revealed a chaotic situation: some homes were given out to those people who “complained the loudest” or were so “unruly” that NHCDT gave them a home to placate them. Others appeared to get a home because they had been recommended by a politician or other individuals. Still others were not eligible to get a home but got one anyways. In fact, although it was our intention originally to determine why in each case the homeowner received a home, this resolve was quickly dashed by the lack of documentation and limited information from staff to the basic question of, “Why was this particular individual awarded a home?”

2.06 In my opinion, to even call the method used by the NHCDT a process makes a mockery of the term. In truth there was only chaos and manipulation in the selection “process”. This lack of process was exacerbated by a Board who should have had a vital interest in ensuring that the homes went to the most qualified candidates but instead just delegated this task back to the NHCDT management and told them to get on with the task as quickly as possible.

2.07 The end result was a system that was whimsical and could in no way purport to treat applicants fairly. There were always more people who wanted a chance to purchase affordable homes than the limited supply available. NHCDT staff indicated that over 250 people had applied to be home owners before hurricane Ivan and that the number of applicants swelled to approximately six hundred in the months after Ivan. However, most of these applications were never even assessed. Based upon our discussion with staff, we believe that less than 60 applications were ever assessed. For the remainder, no assessment was ever done. We expected the NHCDT staff to be able to provide us with a complete list of all the applicants; however they were unable to provide one.



2.08 The entire selection process is patently unfair. It means that many possibly deserving people never had any chance to own these homes. It also throws doubt on the people who did receive homes. Even if they were deserving, it would be impossible to say that they would have received a home if all the applications had been considered.

2.09 There were 77 successful applicants who received homes prior to our first review in June 2005. Of these 77 homeowners, the managers of the NHCDT conducted an eligibility assessment for 30, or 39%, of them. These eligibility assessments were extremely rudimentary. The assessments were usually one page in length and consisted of two parts: a short assessment from the Community Development Manager to determine if the prospective homeowner would fit in positively to the community and a short financial review from the Manager to determine if the prospective homeowner could meet the required mortgage and strata payments.

2.10 However, even this limited financial criteria and review was not always followed. Our review of the 77 files for home owners revealed that 38 homeowners (or 49%) fell outside the selection criteria as they earned more than CI\$24,000 per year (CI\$2,000 per month). See **Table 1** for details.

2.11 Given the large numbers of individuals who had applied for these homes, and the large number of applicants who were never assessed, I find it amazing that almost half of the people who received homes failed to meet even the most limited of assessment criteria.

Table 1: Income of homeowners outside the selection criteria

Income range per month (CI \$)	Number of applicants
\$2,001 - \$2,500	9
\$2,501 - \$3,000	13
Over \$3,000	16
Total	38



2.12 The successful applicants were awarded homes by a variety of means. Some of the applicants were assessed, though none were prioritized. Of those that were assessed, some were successful in obtaining a home, and some were not. Some of those awarded homes were not assessed favourably (for example, four failed the manager's financial review), while 23 applicants who did not receive homes were assessed favourably.

2.13 Others were awarded homes because they were persistent in harassing the NHCDT until they received a home. Still others received homes due to political influence. Our file review indicated that 3 applicants received homes due to known influence by the former Minister and Chair of the Board, and in 7 cases there was political involvement in the form of recommendations from politicians. We found 2 cases where the successful applicants were related to NHCDT staff members. In addition, at least 9 successful applicants work for the Cayman Islands Government.

2.14 I do not contend that it is unreasonable to have some political involvement in the process of determining who should have affordable homes. In fact, input from the political arena would be useful in determining those individuals with the greatest need.

2.15 However, in the absence of any meaningful assessment process such as occurred in the AHI scheme, these inputs may have been given much more weight than intended.

2.16 The three cases of known political influence by the former Minister and Chair are more disconcerting. In each case, staff of the NHCDT was directed to give a home to the recipient. Needless to say, such actions would be seen as blatantly unfair by those individuals who applied for a home and whose applications were not even considered. In all three cases, the individuals earned more than the maximum under the selection criteria. On 25th August, Dr. Frank McField was made aware of our concerns. However, he did not provide any comment relating to them.



2.17 It goes without saying that I find such a process distasteful. In a situation such as the Cayman Islands, where the need for affordable housing greatly outstrips the supply, I believe that any political interference in the selection process is totally unacceptable.

Summary

2.18 In my opinion, there was a clear lack of any fair process used to allocate the homes under the Affordable Housing Initiative. Homes were awarded in a hasty manner, with little regard for the almost non-existent selection criteria. The selection process was patently unfair with the vast majority of individuals who applied not even considered. For the lucky few who were considered, the method of selection was unclear and certainly not documented. In fact, there was no answer to the question as to why these individuals had been chosen for review rather than their unlucky counterparts. In short, it can be said that there was no process at all.

2.19 However, it cannot be assumed, even in the cases of known political influence noted above, that the persons who did receive a home did not deserve one. Without selection criteria and a fair assessment of all applicants, such a judgment would be impossible to make. In fact, if a fair and impartial assessment had been done using suitable criteria, the result might have been that some of the people who did receive homes were in fact the most deserving. Without such a process, we will never know. In addition, the NHCDT has 22 homes that are ready to be occupied. It is for this reason and to ensure that any additional allocations are done fairly that I make the following recommendations.



Recommendations

2.20 The NHCDT should not sell any more houses until suitable criteria for their allocation have been developed.

2.21 The NHCDT should allocate future houses based on a fair selection process, so that people who most deserve to get the homes, according to the criteria, are selected.

2.22 The NHCDT Board needs to fulfil their oversight role regarding the selection process.



FINANCIAL UPDATE

Mortgage Agreement

3.01 In our June 2005 report we stated that as of 10th June 2005, the final mortgage agreement and Strata by-laws were still pending and not yet finalized. In paragraph 5.38 we recommended that the NHCDT make every effort to finalize the mortgage agreement and the Strata by-laws as soon as possible. As at 11th August, no action had been taken. As a result, none of the homeowners have yet to sign a mortgage agreement, even though some have now occupied their homes for 10 months.

Mortgage Payments

3.02 As reported in our June 2005 report, there were 20 homeowners in arrears as at 30th April 2005, representing 26% of the total homeowners, and the total amount in arrears was CI\$13,618. By June 9th, the number of homeowners in arrears increased by 9% to 35%, with 27 homeowners in arrears, owing a total amount of CI\$30,122.

3.03 The NHCDT acquired the services of a Collections Officer who started work the week of the 6th of June. We expected that the percentage of homeowners in arrears and the total amount owed would decrease after that time. An analysis was done to determine the arrears as at 2nd August 2005.

Table 2: Homeowners in arrears as at August 2, 2005

Number of homeowners	Between 30 and 60 days	Between 60 and 90 days	Above 90 days
33	\$23,532.75		
8		\$11,166.83	
9			\$23,436.81



3.04 As seen in **Table 2**, 50 homeowners (or 65%) were in arrears as at 2nd August 2005, owing a total amount of CI\$58,136. This represents an increase of 29% of homeowners in the seven weeks between 9th June and 2nd August, 2005. Only 27 homeowners (or 35%) are paying their mortgage payments as required. Clearly the Collections Officer has not yet had any positive impact on the delinquency rate of the mortgage payments to date.

3.05 In paragraph 5.41 of our June report, we recommended that the NHCDT formulate an internal policy to deal with bad debts. As at the 2nd of August, the NHCDT has yet to write and implement a bad debt policy. The draft mortgage agreement does allow for 5% interest to be applied to any unpaid amount. In addition, it allows a right to the vendor to terminate the agreement with the purchaser *should the purchaser fail to pay any part of the Purchase Price in accordance with the Agreement or fail to comply with any part of: i) the Agreement, ii) the By-Laws, or iii) the Loan Agreement.* However, as stated in **paragraph 3.01**, to date none of the homeowners have signed a mortgage agreement, thereby rendering the terms of the mortgage agreement unenforceable at this time.

Status and circumstances of house rental units

3.06 As reported in our June 2005 report, fourteen houses had been rented out, of which thirteen are located at Eastern Avenue and one is in West Bay. Six homes had been rented out on the instruction of the former Minister and Chairman of the NHCDT (four to Staunch Limited, and two to Capital Trucking, a company owned by the former Minister), and eight homes were rented to individuals. Of the eight homes rented to individuals, two had started their tenure as squatters. It was also alleged that some rentals were made at the request of the former Minister, leaving only four of fourteen renters actually selected by the management of the NHCDT based on age and family circumstances.



Rental revenue collected in accordance with rental agreements

3.07 In our June report, we stated that for the six-month period November 2004 through 30 April 2005, five renters owed CI\$5,975. This represented a collection rate of 87% of rent due. For the six-month period ended 31st July this rate had decreased to only 55%, as seen in **Table 3**. Only two of the fourteen tenants were up-to-date with their payments.

Table 3 – Expected vs. Actual Rent, February through July 2005

Expected Rent	\$64,450	
Amount Collected	\$35,450	55%
Amount Outstanding	\$29,000	45%

3.08 The breakdown of the amount outstanding can be seen in **Table 4** as follows:

Table 4 – Analysis of Outstanding Rent for the six-month period February through July, 2005

Tenant	Amount outstanding	Percent of total
Staunch Ltd	\$11,000	38%
Department of Child and Family Services	\$6,000	21%
Capital Trucking	\$3,500	12%
Former squatter referred to in paragraph 3.11	\$2,700	9%
Miscellaneous others	\$5,800	20%
Total	\$29,000	100%



3.09 On July 22nd, the NHCDT sent an invoice to Staunch Ltd. for outstanding rent for May and June for one house; for May, June and July for three houses; and for a \$500 water assessment. The total amount owing was \$11,500. The same day, the NHCDT also sent Staunch a notice to vacate the four houses within 30 days. Staunch paid \$11,500 on August 9th, and indicated that they would only be responsible for one house after August 10th. Two of the homes would be used only for the first ten days of August. As at the date of this report, Staunch had vacated 3 houses, and was only occupying one house.

3.10 On July 22nd, the NHCDT sent an invoice to Capital Business System (a related company to Capital Trucking) for outstanding rent for one house for May, June and July and a water assessment for \$500. The total amount owing was \$3,500. On the same day, the NHCDT also sent Capital a notice to vacate the house within 30 days. As at August 17th, Capital had yet to pay the NHCDT for the outstanding amount, and was still occupying the home. In a meeting on 25th August, Dr. Frank McField alleged that he had attempted to pay the outstanding rent, but that the check had been ripped up by the NHCDT manager. However, he declined to provide a copy of the ripped up check as evidence to substantiate his claim.

3.11 One of the tenants who moved in last January as a squatter, subsequently signed a lease in March. After being allowed to live rent-free for two months, this tenant paid one month of rent (\$800) for March, and since then has only paid \$500 in July. When the NHCDT asked against which month they should allocate this \$500, the tenant replied they did not care, the NHCDT was lucky the tenant was paying anything at all.

Recommendation

3.12 The NHCDT needs to enforce the rental agreements that it has with all of its tenants. If tenants cannot or refuse to pay their rent as agreed, the NHCDT should take legal action to evict them.



SPECIAL PURPOSE FUNDS

Special Purpose Donation used for Mortgage Payments

4.01 In November 2004 the NHCDT received a donation of CI\$32,800 from Celebrity Cruises. In the letter accompanying the donation, the company stated that: *The monies are to be used to assist persons who are not able to meet the \$1,000 and \$1,500 deposit required for affordable homes operated by the National Housing Trust.* In December 2004, \$2,500 was used for deposits for two homeowners. However, in February 2005, the management of the NHCDT also applied \$3,658 of this donation to the mortgages of these same two homeowners, who had yet to make a mortgage payment. These two homeowners are the same two we reported in our June 2005 report whose disposable income was less than the required mortgage payment. In July, the NHCDT allocated another \$6,900 from this fund to pay outstanding mortgage payments for the same two people again, plus one other person.

4.02 In my opinion, the management of the NHCDT erred in applying funds from this donation to the mortgage payments of homeowners. In doing so, the NHDCCT has breached their fiduciary responsibility to the company. The donation is to be used for a special purpose, and is not at the disposal of the NHCDT managers to use as they see fit. The true picture of the delinquency of payments has also been distorted, in that the total amount owing is in actual fact CI\$68,694.

Recommendations

4.03 The NHCDT should reverse the allocation of the special purpose donation to the mortgage payments of the two homeowners.

4.04 In the future, the NHCDT should only use the donated funds for the purpose for which they were intended.



MANAGEMENT OF TRAILERS

Background

5.01 In late 2004, Cayman Islands Recovery Operation (CIRO) submitted a report to Government emphasizing the need for immediate housing assistance for large numbers of people. Cabinet subsequently gave support for an emergency recovery plan for the housing sector. The plan included the importation of trailer homes which would be rented to occupants. CIRO was in charge of determining selection criteria and allocating the homes. In late July 2005, management of the Temporary Trailer project was turned over to the NHCDT, who became responsible for maintenance, rent collection, and future trailer allocations.

An Exit Strategy has not been developed

5.02 Upon import, the trailers are permitted to remain in the Cayman Islands for 24 months. In item No. 4754 CP 3254/04 “Waiver of Import Duty Mobile Homes”, the Cabinet advised and the Governor ordered that, *before such vehicles arrive on the Island, a policy should be formulated to deal with the exportation of these vehicles at the end of 24 months, in light of the stipulation in the licence.* However, the policy for exportation was not developed and did not exist as of the date of this report. The question remains as to how the tenants will be removed and where they will live once the 24 months have passed.



Adequate criteria exist to assess the eligibility of applicants

5.03 The criteria to assess the applicants for the trailer homes were determined by the Temporary Housing Committee of the CIRO. Catherine Tyson, Manager, Community Development, NHCDT, was a member of the selection committee. Control over the selection process was handled by CIRO, and as such, the selection criteria and allocation process were not examined for this report.

Management of the trailers

5.04 The NHCDT is now “*responsible for cycling tenants in and out of trailers*” and the selection of applicants. It also has full control of the Temporary Trailer project.

5.05 The NHCDT has been collecting the rent payments and maintaining the trailers and the trailer sites. The NHCDT estimates that at best, the Temporary Trailer Project will break-even. This does not include the initial cost of the trailers, or any exit costs.

5.06 CIRO allowed the tenants to move in without paying a deposit, their first month’s rent, or signing a lease. As a result, the NHCDT has inherited a mess, and is left with the burdensome task of tracking down each trailer tenant and attempting to rectify the situation. The NHCDT is in the process of getting the leases signed. The NHCDT estimates that approximately 60% of the leases had been signed as at 2nd August.

5.07 Many of the leases are only being dated currently, meaning that any unpaid rent from earlier months might be forfeited. Twenty tenants were current with their payments and did not owe anything as at 31st July. However, six tenants had yet to pay any rent for their trailers. Some of the tenants are having their deposits and/or rent paid by the Department of Children and Family Services (DCFS). However, DCFS is behind in its payments to the NHCDT. The total amount owed for trailer rent as at 31st July can be seen in **Table 5**.



Table 5: Outstanding Trailer Rent as at 31st July

Debtor	Rent Amount	Deposits Amount	Total
DCFS	\$3,600	\$650	\$4,250
Tenants	\$45,560	\$3,900	\$49,460
Total	\$49,160	\$4,550	\$53,710

Recommendation

5.08 The NHCDT needs to enforce the rental agreements that it has with all of its trailer tenants. If tenants cannot or refuse to pay their rent as agreed, the NHCDT should take legal action to evict them.

Who will pay for the utilities costs?

5.09 The trailer sites have only one meter for water and electricity. The usage will need to be allocated to the trailer tenants. The NHCDT has verbally informed the tenants that they will be assessed for utilities. However, in reviewing a sample lease agreement, we noted that there is no provision in the lease with regard to the cost of utilities. Therefore, the NHCDT may have difficulty collecting payments for utilities.

5.10 Records obtained from NHCDT indicate that up to 25th April, \$1,073 was paid for electricity at the Fairbanks site. For the period February through July, \$7,434 was paid for electricity at the West Bay site. No records were available for the Bodden Town site. We estimate that for the three sites, the total cost of electricity to the end of July would be approximately \$16,000. Records obtained from NHCDT indicate that the cost of water at the Fairbanks site to 31st July is \$5,104. No records were available for the other two sites. Based on the cost at Fairbanks, we estimate the total cost of water to the end of July for the three sites to be approximately \$25,000.



5.11 Based on our estimates, NHCDT has incurred charges of approximately \$41,000 for utilities to the end of July. As at 31st July, the NHCDT had only received \$565 from tenants toward the cost of utilities.

Safety during the threat of hurricanes

5.12 The safety of the trailer tenants is of concern in that the trailers will not be able to sustain hurricane force winds. In a local newspaper on 21 December 2004, Mr. Orrett Connor is quoted as saying a proposal will soon be placed before Cabinet for a law for mandatory evacuation of persons living in trailer homes. As at the 2nd of August, no such law has been signed.

Summary

5.13 The NHCDT has inherited the Temporary Trailer Project from CIRO. Outstanding issues such as the signing of lease agreements, collection of outstanding rent and utilities costs will need to be resolved in a timely manner.



APPENDIX A

NHCDT Bond Obligation Cash Flow and Amortization Schedule (US\$)

Payment #	Payment Date	Total Payment	Principal Payment	Interest Payment	Closing Principal
0	10/28/04				14,500,000.00
1	04/28/05	379,755.00	-	379,755.00	14,500,000.00
2	10/28/05	379,755.00	-	379,755.00	14,500,000.00
3	04/28/06	607,032.44	227,277.44	379,755.00	14,272,722.56
4	10/28/06	607,032.44	233,229.84	373,802.60	14,039,492.72
5	04/28/07	607,032.44	239,338.13	367,694.31	13,800,154.59
6	10/28/07	607,032.44	245,606.39	361,426.05	13,554,548.20
7	04/28/08	607,032.44	252,038.82	354,993.62	13,302,509.38
8	10/28/08	607,032.44	258,639.72	348,392.72	13,043,869.66
9	04/28/09	607,032.44	265,413.49	341,618.95	12,778,456.17
10	10/28/09	607,032.44	272,364.67	334,667.77	12,506,091.50
11	04/28/10	607,032.44	279,497.90	327,534.54	12,226,593.60
12	10/28/10	607,032.44	286,817.95	320,214.49	11,939,775.65
13	04/28/11	607,032.44	294,329.72	312,702.72	11,645,445.93
14	10/28/11	607,032.44	302,038.21	304,994.23	11,343,407.72
15	04/28/12	607,032.44	309,948.59	297,083.85	11,033,459.13
16	10/28/12	607,032.44	318,066.15	288,966.29	10,715,392.98
17	04/28/13	607,032.44	326,396.30	280,636.14	10,388,996.68
18	10/28/13	607,032.44	334,944.62	272,087.82	10,054,052.06
19	04/28/14	607,032.44	343,716.82	263,315.62	9,710,335.24



Payment #	Payment Date	Total Payment	Principal Payment	Interest Payment	Closing Principal
20	10/28/14	607,032.44	352,718.76	254,313.68	9,357,616.48
21	04/28/15	607,032.44	361,956.46	245,075.98	8,995,660.02
22	10/28/15	607,032.44	371,436.10	235,596.34	8,624,223.92
23	04/28/16	607,032.44	381,164.02	225,868.42	8,243,059.90
24	10/28/16	607,032.44	391,146.70	215,885.74	7,851,913.20
25	04/28/17	607,032.44	401,390.83	205,641.61	7,450,522.37
26	10/28/17	607,032.44	411,903.26	195,129.18	7,038,619.11
27	04/28/18	607,032.44	422,691.01	184,341.43	6,615,928.10
28	10/28/18	607,032.44	433,761.28	173,271.16	6,182,166.82
29	04/28/19	607,032.44	445,121.49	161,910.95	5,737,045.33
30	10/28/19	607,032.44	456,779.22	150,253.22	5,280,266.11
31	04/28/20	607,032.44	468,742.27	138,290.17	4,811,523.84
32	10/28/20	607,032.44	481,018.63	126,013.81	4,330,505.21
33	04/28/21	607,032.44	493,616.51	113,415.93	3,836,888.70
34	10/28/21	607,032.44	506,544.32	100,488.12	3,330,344.38
35	04/28/22	607,032.44	519,810.72	87,221.72	2,810,533.66
36	10/28/22	607,032.44	533,424.56	73,607.88	2,277,109.10
37	04/28/23	607,032.44	547,394.95	59,637.49	1,729,714.15
38	10/28/23	607,032.44	561,731.23	45,301.21	1,167,982.92
39	04/28/24	607,032.44	576,442.97	30,589.47	591,539.95
40	10/28/24	607,032.44	591,540.01	15,492.43	(0.06)

