

THE CORPORATION OF THE CITY OF WINDSOR
Social Development, Health and Culture Standing Committee-
Administrative Report

**MISSION STATEMENT:**

"The City of Windsor, with the involvement of its citizens, will deliver effective and responsive municipal services, and will mobilize innovative community partnerships"

LiveLink REPORT #: 15478 GH2011	Report Date: September 30, 2011
Author's Name: Rob Oleynik	Date to Standing Committee: December 14, 2011
Author's Phone: 519 255-5200 ext. 6278	Classification #:
Author's E-mail: roleynik@city.windsor.on.ca	

To: Social Development, Health and Culture Standing Committee

**Subject: Update - Polonia Park 5085 South National Street, Windsor Ontario
 Polish Canadian Association Centre of Windsor
 Request Ministerial Consent for Mortgage Re-Financing Arrangements**

1. RECOMMENDATION: City Wide: X

For information to the Standing Committee for Social Development, Health and Culture.

EXECUTIVE SUMMARY:

2. BACKGROUND:

The purpose of this report is to provide an update regarding re-financing arrangements for Polonia Park, a 342 unit non-profit housing development located at 5085 South National Street, Windsor Ontario developed under a Federal housing program some 30 years ago.

Polonia Park began to experience vacancy rate challenges in 2007. As the economy deteriorated Polonia Park vacancies persisted, creating sustained financial difficulty over the last few years including arrears in property taxes.

There are three mortgages on the Polonia Park development totaling \$5.395M or 15,775.00 per unit. The sustainable solution identified was to increase the first mortgage at renewal on August 1, 2011 by approximately \$1M to meet debt obligations including the payment of property tax arrears and to re-amortize the mortgage over 25 years to significantly increase monthly cash flow amounts. This resulted in the group's request to the City as Service Manager for assistance to secure additional mortgage funds and/or financial assistance in the form of mortgage loan re-amortization to address financial pressures until the rental market returns to more conventional occupancy rates.

The Social Housing Reform Act prohibits a non-profit housing provider from changing a mortgage in any way without the prior consent of the Minister of Municipal Affairs and Housing. The Ministry will not consider a request for Ministerial Consent unless the Service Manager supports re-financing proposals.

In April 2011, Windsor City Council authorized the Director of Housing and Children Services to request Ministerial Consent for the new mortgage financing and; to negotiate any variations or changes to the re-financing proposal and; to negotiate changes to the Polonia Park Operating Agreement up to and including termination to the agreement, if necessary (Report # 15187 April 18, 2011). Housing Services submitted the request for Ministerial Consent and Polonia Park submitted the required application for CMHC mortgage insurance. In July 2011, CMHC advised the Polonia Park application for mortgage insurance would not be approved due to the group's property tax arrears indicating CMHC does not provide insurance for mortgages that capitalize the payment of property tax arrears. The Ministry subsequently arranged a six month renewal term with the CMHC Direct Lending Branch to payout the existing first mortgage to allow time to explore and conclude a permanent financial solution. The renewal term was effective August 1, 2011 and expires February 1, 2012. A condition of the renewal mortgage required Polonia Park to utilize its best efforts to make 18 equal monthly payments to pay off the property taxes arrears balance of approximately \$ 472,520.00. At the time of this report the tax arrears balance is approximately \$309,370.00.

3. DISCUSSION:

The primary cause of Polonia Park's financial difficulty stems from a reduction in revenue from sustained high vacancy rate coupled with upward pressures on operating costs creating cash flow challenges. The City of Windsor experienced one of the highest rental vacancy rates in Canada for the last several years. There are currently signs that, although remaining at a high level, the vacancy rate in the area is starting to abate. Polonia Park has reported a reduction in vacancy rate from 16% in April 2011 to 6.7% at August, 2011 together with a small operating surplus for the six months ended June 30, 2011.

CMHC was advised of the progress made regarding the vacancy rate, small surplus and of a plan to address tax arrears and were asked to process a second application with the improved operating information. CMHC declined to consider mortgage insurance to re-finance Polonia Park for a second time.

In response, Housing Services continues to pursue options with the goal to have re-financing arrangements concluded for the February 1, 2012 mortgage renewal.

First National remains interested and will be sending a proposal outlining what they are prepared to do without CMHC insurance. An expected change from the original proposal is most likely a higher interest rate.

Housing Services has requested the Ministry to ask the CMHC Direct Lending Branch to consider renewing the first mortgage on February 1, 2012 under the new re-financed terms.

All options require CMHC's co-operation. A new first mortgage will require CMHC's agreement to retain the second and third mortgages in place. If financing for all three mortgages is arranged CMHC's co-operation is requested to waive any payout penalties.

4. Risk Analysis

A component of downloading social housing programs to municipalities included a provincial guarantee and contingent liability on all mortgages placed on social housing developments. In addition, all social housing mortgages are insured by CMHC. The Social Housing Reform Act includes provisions to enable the transfer of the provincial liability to municipalities as Service Manager. In other words, the province can choose to transfer their mortgage guarantee liability to the municipality as Service Manager in the event of a provider default. There are no clear criteria under which the province will trigger such a transfer of liability. It is generally believed that the provincial ability to transfer the mortgage liability to the municipality is intended to ensure the municipality is not negligent when addressing projects facing financial challenges. Housing Services is not aware of any circumstance in the province where the liability for a mortgage guarantee has been transferred to a municipality since downloading in 2001. Housing Services is of the opinion that the City has not been negligent in addressing the financial challenges faced by Polonia Park. This opinion however does not necessarily prevent a provincial decision to transfer the mortgage liability to the City as Service Manager.

All three mortgages on the property are held by CMHC. The first mortgage is due for renewal on February 1, 2012. At the February 2012 renewal date, the total of all three mortgages will be \$4.9M or \$14,300.00 per unit. The equity in the project at the time of renewal is estimated at a low of \$7.6M (\$36,600 per unit) to a high of \$11.3M (\$47,450 per unit MPAC). Polonia Park has arranged for a third party appraisal of the property to establish a specific appraised value.

In a worst case scenario only, there may be risk to the City if CMHC continues to decline to approve mortgage insurance and /or Ministerial Consent is declined preventing the ability of Polonia Park to secure a needed mortgage refinancing arrangement. If mortgage re-financing is not secured for February 1, 2012, CMHC may choose to foreclose on the property and/or the Ministry may choose to transfer its contingent liability for the mortgages (up to \$4.9M) to the City as Service Manager. The City will then be responsible for a \$4.9M mortgage on a development with an estimated market value of \$12.5M to \$16.2M (MPAC).

The degree of risk under a worst case scenario is, by definition, high, where the amount exceeds \$250,000.00. At the time of this report the likelihood the worst case scenario will occur is rare to unlikely.

It is noted however that circumstances may change to significantly increase the likelihood the worst case scenario will occur or alternatively change to the extent a successful conclusion to the re-financing initiative is achieved.

5. FINANCIAL MATTERS:

CMHC holds all three mortgages on the Polonia Park development as summarized in the following Table.

Item	Current Amount	Expiry Date	At February 2012	Lender
First Mortgage	\$2.943M	February 1, 2012	\$2.578M	CMHC
Second Mortgage	\$1.047M	July 2015	\$.905M	CMHC
Third Mortgage	\$1.405M	January 2016	\$1.405M	CMHC
Total at February 2012	\$4.888M or \$14,300 per unit			

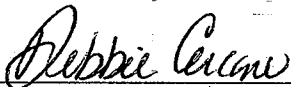
The City, as Service Manager, provides subsidy funding to Polonia Park in accordance with the terms of the 35 year operating agreement in place on downloading. This funding is based on the interest rate of the mortgage and changes on each mortgage renewal. Based on current renewal rates of similar properties it is expected that the interest rate on the anticipated renewal at February 2012 could result in subsidy savings to the City. Housing Services is unable, with any certainty, to estimate the potential savings at this time.

6. CONSULTATIONS:

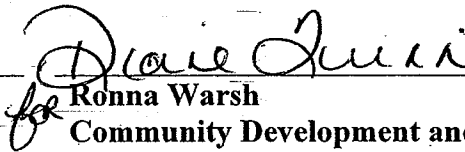
Consultations and discussions continued to be held with the Ministry of Municipal Affairs and Housing, Polonia Park, Devonshire Financial (London) Inc. and the Strategic Mortgage Capital Company Limited and the Social Housing Services Corporation. The required protocol for social housing mortgage arrangements prevents direct contact between the Service Manager and CMHC. All Service Manager communications and submissions must be directed to the Ministry of Municipal Affairs and Housing.

7. CONCLUSION:

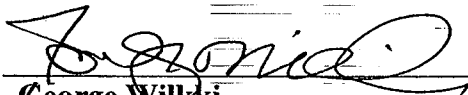
It is noted that the mortgage funds from an interested financial institution remain available to conclude this initiative. The success of a mortgage re-financing arrangement to achieve sustainable financial viability for Polonia Park is dependent on the coordinated co-operation of all parties - Polonia Park, the Ministry of Municipal Affairs and Housing, CMHC and the City as Service Manager. Housing Service remains confident a final arrangement can be successfully concluded.



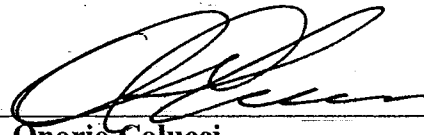
Debbie Cercone
Executive Director of Housing and
Children Services



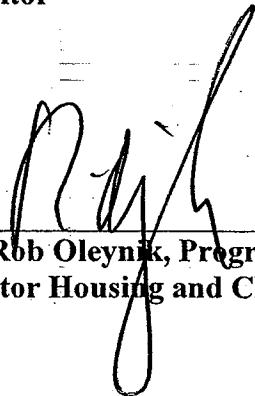
Ronna Warsh
Community Development and Health
Commissioner



George Willki
City Solicitor



Onorio Colucci
Chief Financial Officer and City Treasurer



Author: Rob Oleynik, Program
Coordinator Housing and Children
Services

APPENDICES:**None****DEPARTMENTS/OTHERS CONSULTED:****Name: Legal Services George Wilkki, Ext 6424 Cheryl Glassford, Ext 1774****Phone #: 519-255-6100****Name: Mike Deimling, Social Housing Analyst****Phone: 519-255-5200 ext 5358****Name: Nancy Jaekel, Financial Planning Administrator, Social Services****Phone #: 519 519-255-5200 ext. 5171****NOTIFICATION :**

Name	Address	Email Address	Telephone	FAX
Chair, Board of Directors, Polish Canadian Association Centre of Windsor (Polonia Park)	C/O P C Management, 5085 South National, Windsor ON N8Y 2G2		519-944-2440	519-944-9129
John Kowalski, Property Manager, P C Management	P C Management, 5085 South National, Windsor ON N8Y 2G2		519-944-2440	519-944-9129
Janice Guthrie Deputy Treasurer- Taxation and Financial Projects	350 City Hall Sq West Room 100 Windsor Ontario N9A6S1	jguthrie@city.windsor.on.ca	519-255-6100 x6271	