Agenda - Executive Policy Committee - June 16, 2004

REPORTS

Item No. 8 Loan Guarantee - Winnipeg Housing Rehabilitation Corporation File FC-2.2

STANDING COMMITTEE RECOMMENDATION:

On June 8, 2004, the Standing Committee on Fiscal Issues concurred in the administrative recommendation and recommended that Council receive the analysis outlined in the administrative report dated June 2, 2004, as information in response to the request for a loan guarantee of $2,000,000 from the Winnipeg Housing Rehabilitation Corporation (WHRC), for the purposes of securing an existing line of credit with the Assiniboine Credit Union. (A $2,000,000 loan guarantee would replace the $200,000 loan guarantee previously approved by Council on December 17, 2003.)

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On June 8, 2004, the Standing Committee on Fiscal Issues concurred in the administrative recommendation and recommends to the Executive Policy Committee:

1. That Council receive the analysis outlined in the administrative report dated June 2, 2004, as information in response to the request for a loan guarantee of $2,000,000 from the Winnipeg Housing Rehabilitation Corporation (WHRC), for the purposes of securing an existing line of credit with the Assiniboine Credit Union. A $2,000,000 loan guarantee would replace the $200,000 loan guarantee previously approved by Council on December 17, 2003.

ADMINISTRATIVE REPORT

RE: LOAN GUARANTEE REQUEST FROM WINNIPEG HOUSING REHABILITATION CORPORATION

FOR SUBMISSION TO: STANDING COMMITTEE ON FISCAL ISSUES

ORIGINAL REPORT SIGNED BY: DIRECTOR OF PLANNING, PROPERTY AND DEVELOPMENT AND THE CHIEF FINANCIAL OFFICER

REPORT DATE: June 2, 2004

RECOMMENDATION (S):

That Council receive the following analysis as information in response to the request for a loan guarantee of $2,000,000 from the Winnipeg Housing Rehabilitation Corporation (WHRC), for the purposes of securing an existing line of credit with the Assiniboine Credit Union. A $2,000,000 loan guarantee would replace the $200,000 loan guarantee previously approved by Council on December 17, 2003.

REPORT SUMMARY:

Key Issue(s):

- Involves a request for the approval of a loan guarantee for a line of credit for $2,000,000. The Council adopted policy on loan guarantees states: “Unless there are very special circumstances, the maximum amount of outstanding loan guarantees for any one organization will be $1,000,000.00.” WHRC currently has an unsecured line of credit of $2,000,000 with the Assiniboine Credit Union. The Assiniboine Credit Union has informed WHRC that they can no longer provide them with the unsecured arrangement.

- The City’s loan guarantee policy assumes loan guarantees will be for capital project type financing which amortizes to a maturity date as opposed to a revolving line of credit. The City currently has only one other loan guarantee for a line of credit for an amount of $285,000.

- Winnipeg’s City Council has stressed its commitment to housing renewal strategies. In order to put its housing policy (Winnipeg Housing Policy) into action, the City of Winnipeg expanded the mandate of the Winnipeg Housing Rehabilitation Corporation (WHRC) from a focus on property management to

providing leadership in housing rehabilitation work within the established Housing Improvement Zones (West Broadway, Spence, Point Douglas, and William Whyte). Consistent with this commitment, however, is the need to support and facilitate the provision of resources for the ongoing inner-city revitalization work.

- It was deemed advisable and in the public interest for the provincial government to provide loan guarantees, rather than direct bridge financing, to non-profit housing groups for the sole purposes of acquisition, renovation/rehabilitation and /or new construction of housing units. However, Winnipeg Housing and Rehabilitation Corporation (WHRC) was excluded from receiving a loan guarantee from the Province, as it is considered to be a wholly owned agency of the City, and therefore, a responsibility of the City.

Implications of the Recommendation(s):

General Implications

	None
X	**For the organization overall and/or for other departments**
X	**For the community and/or organizations external to the City**
	Involves a multi-year contract

Comment(s): WHRC has been advised by their financial institution (Assiniboine Credit Union) that in order to continue to access interim financing for the purpose of acquisition and rehabilitation of vacant dwellings they will require a loan guarantee. As WHRC is the major developer of non-profit housing in the inner-city, its inability to acquire properties is having an impact on the revitalization of inner-city neighbourhoods. Failure of WHRC would have a major negative impact on the revitalization of these areas and would be a significant setback in the implementation of the Winnipeg Housing Policy.

On the other hand, if WHRC did not manage the risk associated with rehabilitation work appropriately and defaults on its line of credit, the City, by providing a loan guarantee, would be exposing itself financially.

Policy Implications

	No
X	**Yes**

Comment(s): Council's adopted policy for loan guarantees is for a maximum amount of $1,000,000 unless there are very special

circumstances. WHRC is requesting a loan guarantee of $2,000,000 for a line of credit. The City's loan guarantee policy assumes loan guarantees will be for capital project type financing which amortizes to a maturity date as opposed to a revolving line of credit. The City currently has only one other loan guarantee for a line of credit for an amount of $285,000.

Environmental Implications:

X	**No**
	Yes

Comment(s):

Human Resources Implications:

X	**No**
	Yes

Comment(s):

Financial implications:

X	**Within approved current and/or capital budget**
	Current and/or capital budget adjustment required

Comment(s): There is no financial impact on the City associated with the recommendations of this report unless WHRC defaults on the loan.

REASON FOR THE REPORT:

On December 10, 2003, the Executive Policy Committee passed the following motion, namely:

WHEREAS the Board of Directors of the Winnipeg Housing Rehabilitation Corporation (WHRC) passed a resolution authorizing WHRC Management to request the City of Winnipeg to consider authorizing a loan guarantee for WHRC in order to increase the delivery of affordable housing units in the City of Winnipeg;

AND WHEREAS the General Manager of WHRC has requested the City to consider providing a loan guarantee in the amount of $2,000,000 to WHRC for their unsecured Line of Credit with the Assiniboine Credit Union;

AND WHEREAS the current Council Policy No. 342 limits loan guarantees to a maximum of $1,000,000.00;

THEREFORE BE IT RESOLVED THAT the Executive Policy Committee recommends:

1. That the Winnipeg Housing Rehabilitation Corporation's request for a loan guarantee be referred to the Chief Administrative Officer to undertake an analysis of the loan guarantee request made by WHRC.
2. That the Winnipeg Housing Rehabilitation Corporation be requested to submit a five year business plan for the City's analysis in order that the Corporate Finance and Planning, Property and Development Departments can prepare a joint report and recommendations once financial analysis is completed.
3. That in the interim, the City of Winnipeg be authorized to immediately provide a loan guarantee in the amount of $200,000.00 to the Winnipeg Housing Rehabilitation Corporation to facilitate housing improvements in key Inner City Neighbourhoods.

and submitted the request for a loan guarantee in the amount of $200,000.00 to Council, and submitted the balance of the recommendations to the Administration.

HISTORY:

WHRC is a not-for-profit corporation with charitable status, which was founded in the late 70's by the City of Winnipeg. WHRC is a low-income housing development and management corporation, which operates independently from the City of Winnipeg.

During the 80's, WHRC built over 700 units (social / subsidized housing) in the days of the National and Provincial housing programs. When the National and Provincial funding for new housing projects stopped (early 90's), WHRC concentrated its efforts on property management.

In the late 90's, WHRC began repositioning itself by providing housing advocacy services and housing rehabilitation services for inner city neighbourhoods.

DISCUSSION:

Over the last eighteen months, non-profit housing groups have raised concerns over access to interim (bridge) financing to provide ongoing working capital for acquisition and development costs. While these housing groups have access to funding from all three levels of government through the Winnipeg Housing and Homelessness Initiative (WHHI) to bridge the "market gap" (i.e., the difference between the total cost of developing a housing unit and the market or lending value), access to bridge financing from financial institutions is becoming more difficult. To continue to develop affordable (inner city) housing with the financing currently in place would require that units in progress be completed and sold before an organization may make an offer on additional properties.

WHRC, Housing Opportunity Partnership (HOP), Lazarus Housing Inc., and North End Housing Project (NEHP) are responsible for the majority of the inner city housing renewal occurring in Winnipeg. If these non-profit housing agencies are unable to access sufficient working capital, housing development in the inner-city will be severely diminished, delayed or slowed. Loan guarantees would, on the other hand, permit these agencies to access sufficient working capital. Potentially 225-300 homes could be developed in Winnipeg's inner city over the next five years. The Province of Manitoba has provided loan guarantees to the other community-based housing non-profit groups responsible for inner city housing renewal. However, the Province indicated that WHRC has been excluded since it is considered to be a wholly owned agency of the City, and therefore, a responsibility of the City.

Although WHRC receives monies from the federal, provincial and City governments along with the proceeds of selling rehabilitated properties to replenish its current line of credit, WHRC needs to be able to continue to access interim financing to acquire and renovate inner city houses. The problem is that grant money can sometimes take a considerable amount of time to arrive and WHRC needs to be in a position to acquire other projects before the existing ones are completed and sold and the outstanding grant money for them is received.

In December 2003, Council authorized that a loan guarantee in the amount of $200,000 be immediately approved for WHRC. In the meantime, the City's administration was requested to undertake an analysis of the loan guarantee request. Section 218(1) of The City of Winnipeg Charter allows Council to provide financial assistance "(b) to improve, preserve, repair, maintain, convert or develop any property in the city;" Section 218(2) outlines the form of financial assistance Council may provide, one form being a loan guarantee.

The City continues to be concerned with the number of requests for loan guarantees, as loan guarantees do, in fact, constitute meaningful commitments by the City. These commitments have to be recorded in the notes to the City's financial statements, are factors in determining the City's potential liabilities, and are a factor in determining the City's credit rating. As a result of its ongoing concern, the City adopted a Policy and Criteria to be used as a Guideline in the Consideration of Request for Loan Guarantees on June 17th, 1992. As at December 31st, 2003 the City of Winnipeg was the guarantor of 15 different loans totalling just over $10.8 million. Only one other of these is for a line of credit, albeit for an amount considerably less than what WHRC is requesting ($285,000).

The following is an evaluation of the business plan as provided by WHRC based on the policy and criteria related to requests for loan guarantees as adopted by Council on June 17th, 1992:

A. *Requests for loan guarantees shall be submitted to the City Treasurer for review to determine if the request meets the requirements of the policy.*

As a result of the December 10, 2003 meeting of the Executive Policy Committee, representatives of WHRC met with staff from the Corporate Finance Department to discuss what information would be required in order to complete an evaluation of the loan guarantee request. A copy of WHRC's 5-year business plan including copies of WHRC's financial statements and projections were forwarded for analysis. Corporate Finance Department staff were in contact with representatives from WHRC to clarify any concerns arising from the analysis.

B. *The organization requesting the loan guarantee must provide a service, which, in whole or in part, falls within the mandate of the City of Winnipeg.*

Winnipeg Housing Rehabilitation Corporation is a not-for-profit housing development and management corporation, and was founded in the late 70's by the City.

C. *The project for which the loan guarantee is being requested must not be in conflict with City policy. For example, if City policy stated that we already had more than enough hockey arenas for our population, the City would not guarantee a loan for the purpose of constructing a hockey arena.*

In 2000, Council adopted the Winnipeg Housing Policy. This policy outlines how the City of Winnipeg expanded the mandate of the Winnipeg Housing Rehabilitation Corporation (WHRC) from its focus on property management to providing leadership in facilitating housing rehabilitation in established Housing Improvement Zones (HIZs). The Winnipeg Housing Policy also states the City's commitment to support and provide resources by:

- Developing mechanisms to encourage and solicit private sector participation and investment.
- Adapting municipal mechanisms to encourage investment and innovative solutions to identified needs.

D. *The organization's services must be available to the community at large without restrictions based upon ethnicity, religion or race and without unreasonably restrictive membership or user fees.*

WHRC provides affordable housing for low-income residents of the City.

E. *The organization must be non-profit.*

WHRC is a not-for-profit organization with charitable status.

F. *The organization must produce financial records and a business plan that demonstrates the organization's long-term viability and capacity to meet the obligations of the loan that they are asking the City to guarantee.*

WHRC has provided their March 31st, 2002 and March 31st, 2003 year-end financial statements for review. In addition, because WHRC's financial statements are part of the City's consolidated statements, financial information for the 3 years prior was also available for analysis. WHRC has also provided comparative financial statements for the first 8 months of their current fiscal year and projections to the end of the current fiscal year. For the year ending March 31, 2003 they generated a surplus of $92,392. Based on the actuals for the first 8 months of the current fiscal year ending March 31, 2004, WHRC should generate a surplus of approximately $48,000. As well, they have provided detailed cash flow projections for the next four years.

The projected revenues and expenditures were reviewed by Corporate Finance to verify the reasonableness of the projections. The assumptions used and the projected revenues and expenditures were all considered to be reasonable. WHRC is projecting a positive surplus from operations as at March 31, 2004 and then positive surpluses averaging approximately $40,000 per year over the next 4-year period.

The 2004 to 2008 projections provided assumes WHRC would continue to have access to their current line of credit of $2,000,000 with the Assiniboine Credit Union (ACU). WHRC has been advised by the Assiniboine Credit Union that the existing line of credit will need to be secured to be maintained in the future. WHRC does not have assets available to provide security to ACU and therefore have requested the City provide a loan guarantee for the line of credit.

Since the funding to replenish the line of credit is from other levels of government in the form of grants and the sale of the housing units once they have been renovated, it can be considered a fairly stable source of funding.

As of March 31, 2003, WHRC had in excess of $30.0 million of rental properties on its books. WHRC operates on annual revenues and expenditures of approximately $6.8 million each.

G. *The organization structure and the principles of the organization must be judged by the City of Winnipeg as competent to independently implement the business plan of the organization*.

Based on their financial statements for the past several years, WHRC has demonstrated the ability to implement the business plan. The City has access to WHRC's annual financial statements and as such is able to monitor the ability of

WHRC to service the underlying loan for which the loan guarantee is being requested. In addition, the Planning, Property and Development Department works closely with WHRC in carrying out the City's Housing Policy.

H. *Unless there are very special circumstances, the maximum amount of outstanding loan guarantees for any one organization will be $1,000,000.00.*

Council approved a loan guarantee of $200,000 on December 17, 2003 for WHRC. WHRC has requested a loan guarantee for a line of credit of $2,000,000, which would exceed the maximum amount identified in the Council policy on loan guarantees. A review of WHRC's existing line of credit over the past 2 year period revealed that they had exceeded the need for more than $1,000,000 for most of 2003. The City has approved loan guarantees in excess of $1,000,000 on 3 other occasions in the recent past, but not for a line of credit. The line of credit would be a revolving financing facility for WHRC as opposed to a traditional project financing loan which amortizes to maturity.

I. *The loan that the City is being asked to guarantee should not represent more than 50% of the total funding of the project. The organization requesting the loan guarantees must have raised at least 20% of the total project costs from non-City of Winnipeg sources as a down-payment, i.e. if the organization is receiving a City grant for their project, the grant cannot be counted as part of the 20% down-payment*.

The loan guarantee request is for a line of credit which would fluctuate depending on the cash flow needs of WHRC. Generally speaking the line of credit would finance the entire amount of each individual project until that project was completed and subsequently sold or rented. The existing Council Policy for loan guarantees assumes the loan guarantees will be for project type financing which would amortize to a maturity date as opposed to a line of credit which is a revolving credit facility. WHRC does receive an annual grant from the City of $200,000 for operating purposes.

J. *The loan that the City is guaranteeing must be related to a capital asset.*

The line of credit will be financing the purchase and renovations of homes in the City.

K. *The capital asset must be insured to the satisfaction of the City Treasurer both during and after construction.*

WHRC arranges insurance on the homes they purchase for renovation as well as the rental properties they own.

In summary, Winnipeg Housing Rehabilitation Corporation was initiated by the City of Winnipeg in the 1970's to provide affordable housing for low-income families and residents in the City of Winnipeg. Since its inception, WHRC has built and rehabilitated more than 700 affordable housing units. WHRC currently finances the purchase and renovating of properties via a line of credit it has with Assiniboine Credit Union (ACU). The current arrangement with ACU is a $2,000,000 unsecured line of credit. Assiniboine Credit Union recently advised WHRC that they would be required to have a secured line of credit in the future. WHRC does not have assets available to them to use to be able to secure a line of credit of this size on their own. In addition, the Province has recently approved loan guarantees for similar housing agencies but would not grant a loan guarantee for WHRC because of the City's relationship with WHRC. By providing a loan guarantee for WHRC's line of credit it will give ACU a level of comfort in financing future projects. This loan guarantee is to cover the existing practice of WHRC with respect to financing projects. Council did approve a $200,000 loan guarantee for WHRC on December 17, 2003. The total amount of a loan guarantee for the line of credit would be $2,000,000.

Note: Subsequent to the previous analysis being completed, the General Manager of Winnipeg Housing Rehabilitation Corporation resigned his position at WHRC to take on a position with the Downtown BIZ.

FINANCIAL IMPACT STATEMENT

There will be no financial impact to the City as long as the loan being guaranteed is not in default.

Carrie Erickson, Manager of Finance and Administration
Corporate Finance

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH AND CONCURRENCE BY:

Senior Manager of Operations	Planning, Property and Development
Housing Development Manager	Planning, Property and Development
Manager of Financial Services	Corporate Finance
Manager of Support Services Planning	Planning, Property and Development
Manager of Planning and Land Use	Planning, Property and Development
Housing Policy Coordinator	Planning, Property and Development

THIS REPORT SUBMITTED BY:

Planning, Property and Development Department
Housing Development Division; and
Corporate Finance

Prepared by: David Stansen, Acting Housing Development Manager
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