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Memorandum

To:	**City of Greater Sudbury**		
From:	N. Barry Lyon Consultants Limited		
Phone:	(416) 364-4414	**Date:**	December 2018
Re:	Social Housing Revitalization Plan: Base Case Analysis – Operating and Capital Subsidy Projection		

N. Barry Lyon Consultants Limited (NBLC) has been retained by the City of Greater Sudbury to develop a Social Housing Revitalization Plan, which aims to develop a range of strategies designed to revitalize and optimize the aging social housing stock. As part of this Revitalization Plan, NBLC has prepared an analysis that illustrates how the operating subsidy and capital needs of the Greater Sudbury Housing Corporation (GSHC) might increase looking forward if no revitalization actions are taken and funding practices remain static. This analysis is referred to as the base case or "do nothing" scenario.

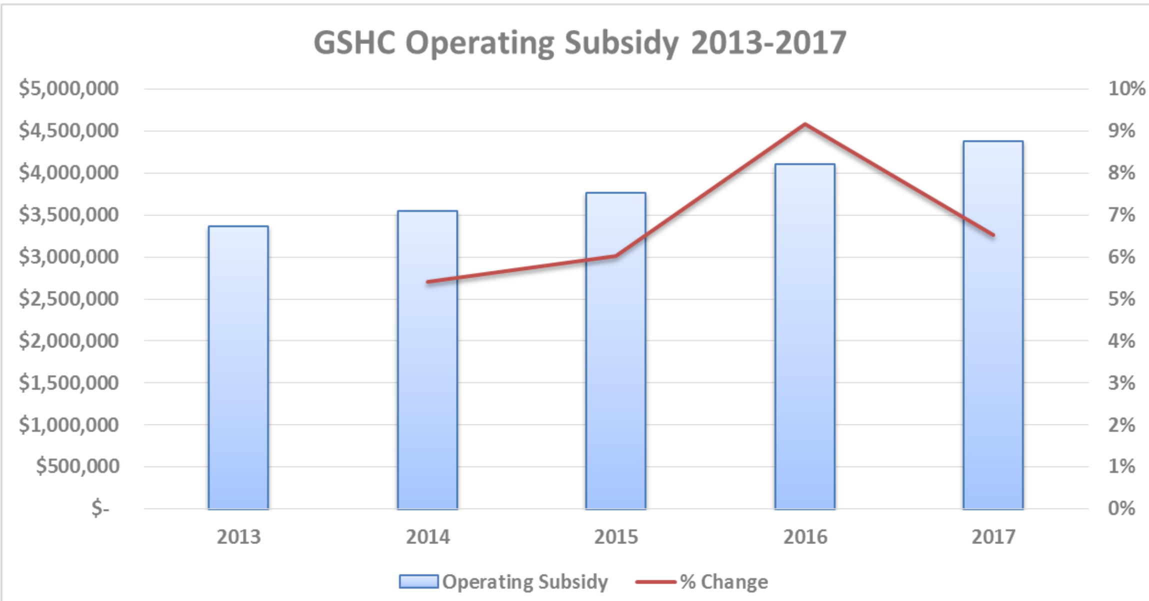
Understanding the base case is critical to the Revitalization Plan as it illustrates the undesirable financial position that will be encountered if revitalization efforts are not implemented. The City of Greater Sudbury is directly responsible for funding the GSHC's operating and capital needs.

1.0 Operating Subsidy Projection

The City of Greater Sudbury (CGS) is responsible for providing "sufficient" operating funding to the GSHC through the Housing Services Act. The CGS has developed a funding formula that provides an annual operating subsidy to the GSHC based on benchmarks for various budget categories, which are inflated each year using the relevant indices released by the Ministry of Housing. If an operational surplus is realized in a given year, the amount is transferred to a reserve fund that is subject to the reserve fund policy and service manager approval. If an operational deficit is experienced, the reserve fund (or additional City funding in the absence of a reserve fund) is used to cover the difference in the budgeted operating subsidy and the year-end financial position of the GSHC. The GSHC is also permitted to submit a business case for additional funding above the annually inflated benchmark, which the CGS may approve on a case by case basis.

The GSHC operating subsidy has increased by an annual average of 6.77% between 2013 and 2017. As per Figure 1 below, the operating subsidy has increased from $3.37 million in 2013 to $4.37 million in 2017. Of note, the GSHC stopped paying property taxes in 2015, which significantly reduced the required subsidy. To account for this change, we have removed the property tax line item from the 2013 and 2014 operating budget to provide a consistent picture for all years.

Figure 1



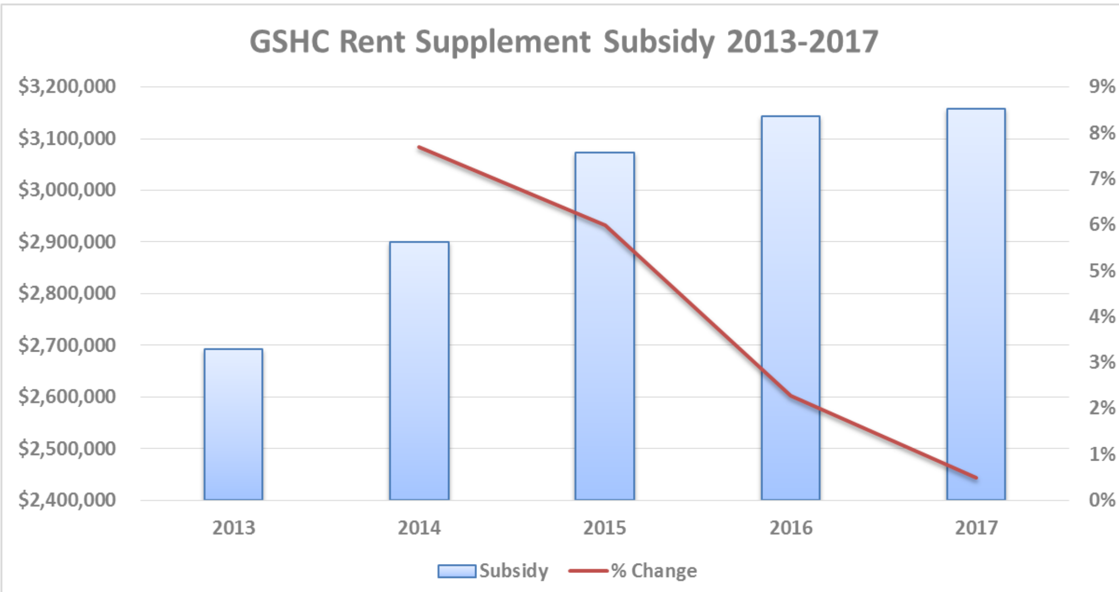
Source: GSHC, CGS, NBLC (note: property taxes have been removed for the 2013 and 2014 budgets; payment of property taxes no longer required beginning in 2015).

Similar to many housing corporations in Ontario, salaries/benefits and utilities make up the largest proportion of the total operating costs experienced by the GSHC. While salaries and benefits have increased 10% over this time (includes full-time GSHC staff as well as seasonal staff and contract workers), utilities have actually decreased by around 5% since 2013 due to the energy retrofits implemented by the GSHC. While these energy improvements have decreased utility costs, it is expected that these costs will increase from current (2017) levels looking forward as long-term utility rate increases are likely.

Revenue from rent has been static since 2013 given the RGI tenant base. However, the GSHC's overall revenue has increased by roughly 6% over this period, which is largely due to increased sundry revenue and the GSHC beginning management services (e.g. property management, RGI administration, etc.) for other social housing providers in 2015.

The GSHC also receives a subsidy from the City for the management and operation of the rent supplement program, which was $3.16 million in 2017. As per Figure 2, the rent supplement subsidy has increased modestly in 2016 and in 2017, however more significant increases were observed between 2013 and 2015. Overall, the subsidy has increased by an annual average of just over 4% between 2013 and 2017. Rent supplement subsidy requirements will shift on an annual basis due to changes in market rent and vacancy, rent supplement reserve funds, and the availability of units based on landlord participation in the program.

Figure 2



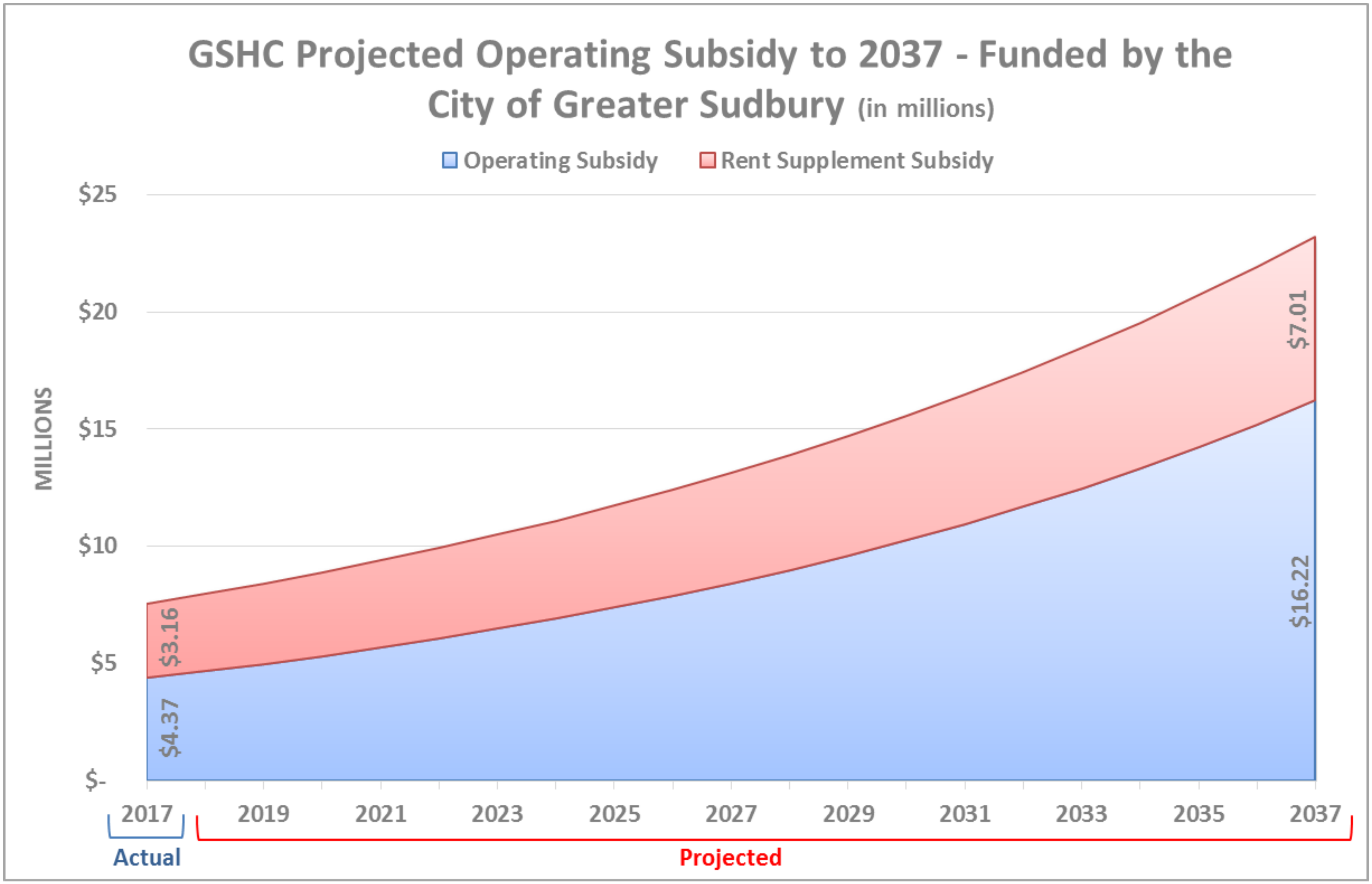
Source: GSHC, CGS, NBLC

Figure 3 illustrates the projected annual subsidy that might be required over the next 20 years if current trends continue. The required operating subsidy of the GSHC will increase from the current amount of $4.37 million to over $16 million by 2037 if the annual rate of increase is sustained (6.77% annual average since 2013). Similarly, the rent supplement subsidy will increase from the current amount of $3.16 million to over $7.0 million by 2037 if the annual rate of increase is sustained (4.07% annual average since 2013). This represents a total annual commitment of roughly $23.2 million by 2037, which is more than 3 times higher than the current annual commitment for these items.

This financial commitment will be further amplified by the fact that federal block funding is continuing to roll off as social housing projects reach their "End of Debentures/Operating Agreements".

It is also noted that the subsidies identified in this memo pertain only to the GSHC housing portfolio. The CGS also provides subsidies to the other non-profit and cooperative housing providers that operate within the City's social housing umbrella.

Figure 3



Source: NBLC

2.0 Capital Needs Projection

Similar to the operating subsidy, the CGS is required to provide "sufficient" capital funding to the GSHC through the Housing Services Act. The funding received from the CGS was established by the Province in 2000 at $2.31 million, and remained at that level until 2012 as illustrated by Table 1.

Table 1

GSHC Annual Capital Subsidy			
Year	**Increase %**	**Increase $**	**Subsidy Amount**
2000	-	-	$2,310,000
2001	-	-	$2,310,000
2002	-	-	$2,310,000
2003	-	-	$2,310,000
2004	-	-	$2,310,000
2005	-	-	$2,310,000
2006	-	-	$2,310,000
2007	-	-	$2,310,000
2008	-	-	$2,310,000
2009	-	-	$2,310,000
2010	-	-	$2,310,000
2011	-	-	$2,310,000
2012	-	-	$2,310,000
2013	1.2%	$28,644	$2,338,644
2014	0.5%	$11,459	$2,350,103
2015	13.0%	$305,220	$2,655,323
2016	12.4%	$330,000	$2,985,323
2017	1.7%	$50,394	$3,035,717

Since 2012, the benchmark subsidy amount has increased annually using the Capital Reserve Index issued by the Ministry of Housing each year. In addition to this annual inflator, there have also been increases above the Capital Reserve Index in 2015 and 2016 as capital repairs were needed in excess of the budgeted capital amount. In addition to the required capital subsidy noted in Table 1, the GSHC has also received other capital grants from senior levels of government (e.g. SHIP, SHRRP, SHARP, etc.).

Despite the ongoing capital subsidy received through the CGS, and other capital funds secured by the GSHC, the GSHC housing portfolio currently has a capital backlog of roughly $30.5 million as of 2017. The GSHC has estimated this capital need using *Ameresco Asset Planner* software, which estimates the necessary capital needs and associated costs of a building. The program itemizes all components (internal, external, and property) of a building and the date of last replacement/refurbishment. An estimate of component life duration and the cost of replacing specific components is then provided, which estimates the annual capital work and costs of the portfolio. In addition to the current $30.5 million capital back log, Asset Planner estimates that approximately $108.7 million of additional capital work is needed to 2036, for a grand total of $142.3 million over the next 19 years.

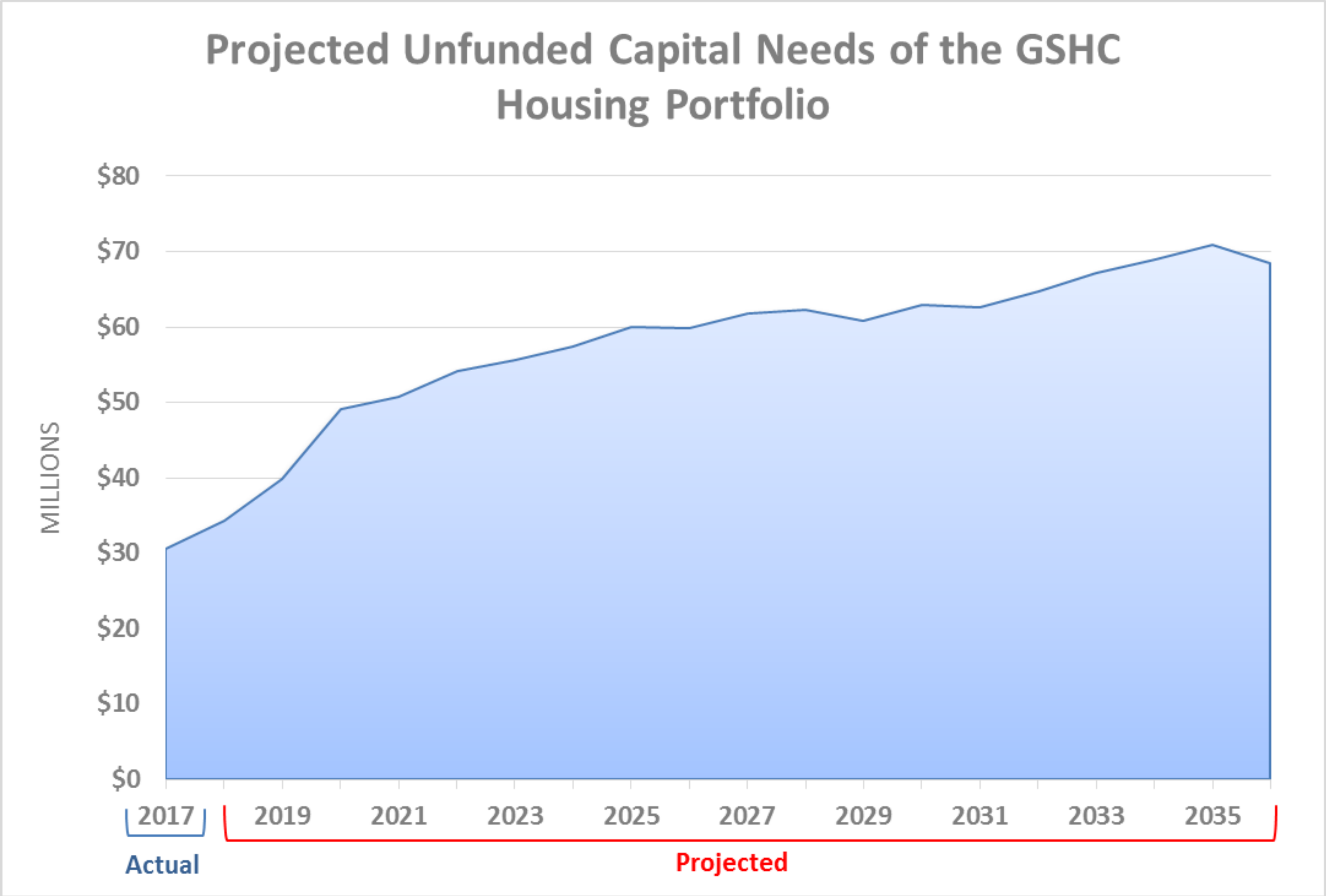
Figure 4 illustrates how the unfunded capital backlog will grow if no action is taken. This model assumes that the 2017 capital subsidy of $3.04 million is inflated annually by 2%, which attempts to mimic the Capital Reserve Index released each year. With these assumptions, the $142.3 million capital need would be met with $73.8 million in funding from the CGS. This would result in the current unfunded capital backlog more than doubling from $30.5 million as of 2017 to over $68.5 million by 2036.

To address the entire capital need over this forecast period, the annual capital subsidy would need to increase to an average of approximately $7.5 million. The GSHC estimates that the capital subsidy would need to increase to an annual average of $5.8 million to maintain a Facility Condition Index of 12%, which is the target level many housing corporations in the Province hope to maintain. The GSHC notes that an annual capital subsidy of $5.8 million would prevent the continued growth of unfunded capital work, but would not be sufficient to address the current unfunded capital backlog. The GSHC further notes that the housing stock is aging and will continue to deteriorate looking forward unless adequate capital spending is made available.

The current capital backlog is comprised of projects that are not “absolutely essential” (e.g. paint, floors, basement repairs, doors/windows, energy retrofits, property improvements, etc.), which means they are not required to be done through legislation, the building code, or pose a serious health/safety concern. Projects that are “absolutely essential” are undertaken with the capital dollars made available, which sometimes requires additional funding beyond the budgeted amount. Eventually however, projects that not currently “absolutely essential” will become essential. It is the service manager’s responsibility to address and sufficiently fund the capital needs of these assets.

In summary, even with a total projected capital expenditure of $73.8 million to 2036, the housing portfolio would still have a sizeable capital backlog that would continue to grow each year. Eventually, non-essential capital improvements will become essential, which will require that either additional funding is made available or the housing unit(s) would have to be taken out of the portfolio. Any RGI units that are closed due to safety/suitability issues resulting from a lack of capital upkeep will have to be replaced elsewhere to maintain the legislated RGI service level standards.

Figure 4



Source: GSHC, NBLC (assumes 2017 capital subsidy from the CGS inflates 2% each year). The Estimated capital subsidy is subtracted from the total capital need as estimated by the GSHC to calculate the residual unfunded capital need of the portfolio.

Table 2

Current and Projected Capital Needs of the GSHC Portfolio			
Year	**Capital Need^**	**Projected Funding***	**Unfunded Residual Capital Need**
2017	$33,558,219	$3,035,717	$30,522,502
2018	$6,867,947	$3,096,431	$34,294,018
2019	$8,656,151	$3,158,360	$39,791,809
2020	$12,597,832	$3,221,527	$49,168,114
2021	$4,835,493	$3,285,958	$50,717,649
2022	$6,809,538	$3,351,677	$54,175,510
2023	$4,871,740	$3,418,710	$55,628,540
2024	$5,321,711	$3,487,085	$57,463,166
2025	$6,122,796	$3,556,826	$60,029,136
2026	$3,414,704	$3,627,963	$59,815,877
2027	$5,705,628	$3,700,522	$61,820,983
2028	$4,203,746	$3,774,533	$62,250,196
2029	$2,355,319	$3,850,023	$60,755,492
2030	$6,072,350	$3,927,024	$62,900,818
2031	$3,660,476	$4,005,564	$62,555,730
2032	$6,229,965	$4,085,675	$64,700,020
2033	$6,651,831	$4,167,389	$67,184,462
2034	$6,094,678	$4,250,737	$69,028,403
2035	$6,210,729	$4,335,751	$70,903,381
2036	$2,031,846	$4,422,466	$68,512,760
Total	**$142,272,699**	**$73,759,939**	**$68,512,760**

*Source: GSHC, CGS, NBLC; Notes: ^2017 is current capital back log, 2018-2036 is the annual projected capital need from Asset Planner. *2017 subsidy amount is inflated annually by 2%.*

3.0 Key Findings

The results of this analysis indicate that the social housing costs for the City of Greater Sudbury will escalate quickly if no actions are taken. The GSHC's ongoing operating subsidy is projected to more than triple over the next twenty years, which will place increased strain on the CGS to financially support this service. Capital maintenance requirements will grow to over $142 million by 2036. If current capital funding practices are maintained, the CGS will provide the GSHC $73.8 million between 2017 and 2036 and still have an unfunded capital need of approximately $68.5 million. If capital projects cannot be funded, eventually the housing will become unsuitable for occupancy and be forced to close.

The financial consequences are further compounded by the fact that all of the issues that currently plague the housing portfolio will continue to be present even with the increased financial commitment from the CGS. These issues include the mismatch between existing supply and demand, the overall financial unsustainability of the housing portfolio, inefficient/outdated utility infrastructure and building components, concentrated and/or segregated social housing, poor building/living environments, the lengthy wait list for social housing, lack of social/community services, and many others.

While revitalization efforts can be expensive when viewed in isolation, these costs must be weighed against the costs of inaction that are highlighted in this analysis. Revitalizing the housing stock will work to reverse these projected trends while also addressing many of the other issued noted above.