



REPORT FOR ACTION

Draft 2021 Consolidated Operating Budget

Date: October 23, 2020
To: Toronto Atmospheric Board of Directors
From: Director of Finance

SUMMARY

TAF's 2021 Operating Budget is presented for Board consideration and approval.

A key driver of the proposed 2021 Budget is having three endowments totalling approximately \$90 million. Revenues are based on: historically conservative assumptions for the performance on marketable securities (5.5% annual return), a larger portfolio of Direct Investments in keeping with the Target Portfolio and risk/return expectations; and ambitious expectation for attracting external revenues for specific projects.

Expenditures are based on: the available resources, including investment proceeds and external funds (which are not spent until raised); compliance with the Payout Ratio established to protect the endowments; the minimum grant making and maximum administrative expense requirements. The proposed budget reflects 15 core staff positions (an increase of two) and 15 term contract positions of which five would be supported by external revenues.

The 2021 Business Plan to advance climate solutions for the Greater Toronto and Hamilton Area (GTHA), which will be presented to the Board at the first meeting in 2021, will be crafted in keeping with the proposed 2021 Consolidated Operating Budget, and the fund-specific requirements.

RECOMMENDATIONS

The Director of Finance recommends that the Board of Directors approve TAF's 2021 Consolidated Operating Budget (Attachment 1).

FINANCIAL IMPACT

None to the City. A draft budget has been submitted to the City of Toronto for consideration and approval in its budget reflecting "net zero" impact on the City's Operating and Capital budgets.

DECISION HISTORY

TAF's 2020 Business Plan and Budget was approved at the February 14, 2020 Board meeting (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.TA5.4>).

COMMENTS

The proposed 2021 Consolidated Operating Budget (the Budget) (Attachment 1) is presented for Board approval. Notable features are highlighted below.

- The Budget includes \$7.9 million revenues (Line 10) and \$7.9 million expenses (Line 36), with a net zero balance. This is 40% higher than last year reflecting the addition of the Canada fund (\$40M) bringing TAF's asset value to approximately \$90 million
- With the Canada endowment, TAF is implementing "separate fund accounting" that enables tracking of each endowments' performance and expenditures separately. Costs are shared in proportion to the Net Asset Value where appropriate.
- Realized and un-realized gains on TAF's portfolio of marketable securities account for 48% of revenues (Line 5). These are projected based on a conservative return of 5.5% annually on fixed income and on global equities. The new Canada fund is being deployed gradually into equities and fixed income over the course of 2021 based on the deployment plan advised by the Investment Committee.
- Direct Investment revenues (Line 6) are budgeted based on assumed income on TAF's current book of investments (including ESPAs, loans and other instruments) and projected income from approximately five new transactions in the year; potential investment in early stages of due diligence are not included. The book is primarily owned by the Toronto endowment, but going forward the Ontario and Canada endowments will participate in new investments within the prescribed limits of the endowment agreements.
- Of the \$40 million Canada fund, \$2 million has been provided as operating funds and may be spend down. Expenses related to the Canada fund totalling \$220K that were incurred prior signing the funding agreement and paid using Toronto fund proceeds have been repaid, and \$300,000 is budgeted for expenses in 2021 (part of Line 9). At least \$1 million will be retained for at least three years until the asset value can be built up, serving as a buffer for the requirement to maintain the nominal value.
- External Funding of \$1.69 million is projected (Line 7), approximately 4.5 times the 2020 budget. This reflects confidence in attracting contributions from governments and foundations, mainly for the TowerWise Retrofit Delivery Centre. Multi-year funding agreements are only recognized as project expenditures are incurred and the rest of the committed funding is carried on the balance sheet as revenues deferred into the future. New revenues are allocated to each of the three funds in proportion to the net asset values, although that varies for historical projects.
- In keeping with endowment best practice, TAF maintains a Stabilization Fund for each of the endowments to enable TAF to mitigate variability in its program spending

due to fluctuating financial markets which can affect investment income. In years where the actual exceeds the projected investment income, the excess may be contributed to the Stabilization Fund; in accounting terms, contributions are transferred from the externally-restricted to internally-restricted funds. The Stabilization Fund balance is limited to 25% of NAV. In years where investment income shortfalls occur the Board can authorize a transfer from the Stabilization Fund back to the externally-restricted fund which can be used for budgeted expenses. The proposed 2021 budget includes a draw of \$240K (from the TO and ON funds only) (Line 9), but very rarely is this needed given conservative revenue projections; in fact, contributions to the Stabilization Fund are made in most years.

- Most (86%) of TAF's expenses are dedicated to Strategic Programs (Line 24). The proposed budget increases Grants to non-profit organizations by 30% from 2020 levels to \$1.6 million; \$678K has already been allocated to qualifying projects recommended to and approved by the Board. Grants can be rescinded by TAF if the original granting conditions have not been met, or cannot be met, or when the recipient no longer needs the grant, and such situations may create budget variances. The Budget for Project-related expenses includes \$2.8M from the endowment proceeds (Lines 16 & 20) and \$1.6M from External Funding (Lines 17 & 21) and helps ensure that external funds are only spend when raised.
- TAF's high-performing team is key to its impact. Salaries make up 32% of the Budget. Permanent (aka core) positions have been increased by two to 15. TAF also has 10 term contractors focused on delivering specific projects which are funded by project allocations and/or confirmed external revenue. The budget also includes an additional 5 term contracts which would be engaged only if external revenues are received. Approximately 85% of staff time is dedicated to program delivery (Line 22) with the balance to 'administrative' functions (Line 30); the actual split is validated in the context of the annual audit.
- In keeping with not-for-profit best practice and compliance with the Ontario and Canada fund agreements, TAF's Corporate and Engagement (aka administrative) costs including salaries and direct expenses (related to IT, governance, audit services, corporate communications, certain professional development, etc.) are maintained within 20% of the operating budget (Line 36). As per the TAF/City of Toronto Relationship Framework, TAF's premises at 75 Elizabeth Street are provided by the City; the cost of an internal renovation/office modernization undertaken in 2018 is being amortized over 5 years.
- Amortization of \$820K (Line 23) pertains to the ESPA assets (funded only by the Toronto Fund) that contribute revenue to Direct Investments (Line 6); this is a non-cash expense.
- Endowments typically establish a Payout Ratio -- where the numerator represents annual operating expense and the denominator is the Net Asset Value (NAV) -- to preserve capital by constraining the expenses. The former excludes externally-funded expense which do not draw on the endowment and amortization which is a non-cash expense. In 2006, TAF's Board established Total Payout Ratio of 5 – 6 percent of the NAV based on a 4-year rolling average. The projected Payout associated with the proposed Budget is 6% percent.

CONTACT

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SIGNATURE

Robert Wotten

ATTACHMENTS

1. Draft 2021 Consolidated Operating Budget