The Atmospheric Fund

REPORT FOR ACTION

2019 Business Plan and Budget

Date: February 7, 2019
To: Toronto Atmospheric Board of Directors
From: Chief Executive Officer

SUMMARY

A 2019 Business Plan and Budget are presented for Board consideration and approval.

The Business Plan includes eight projects, each with an objective, specific activities and required collaborations. The plan is guided by TAF's understanding of the greenhouse gas emission sources and reduction opportunities in Toronto and Region-wide, TAF's Theory of Change and evaluation of the successes and challenges of past work, and also our current and evolving Strategic Directions.

Implementation of the Business Plan will be supported by the proposed 2019 Operating Budget of $4.7 million. Projected revenues are based on a conservative estimate of investment returns and external funding, and expenditures are based on available resources and compliance with the Payout Ratio established to protect the endowments. The draft budget has been submitted for City approval with no change in core staff positions (currently 10) and “net zero” impact on the City's budget.

RECOMMENDATIONS

The Chief Executive Officer recommends that the Board of Directors approve TAF's 2019 Business Plan (Attachment 1) and Consolidated Operating Budget (Attachment 2).

FINANCIAL IMPACT

None. TAF is a self-funded agency and has a net zero impact on the City's Operating and Capital Budgets.

DECISION HISTORY

TAF's 2018 Business Plan was approved at the February 9, 2018 Board meeting (http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.TA19.4).

COMMENTS

A summary of progress against the 2018 plan is presented separately, and has informed the development of this plan.

2019 Business Plan

The proposed 2019 Business Plan "Preparing for Scale" (Attachment 1) includes eight overarching projects:

- TowerWise
- Electrification of Transportation
- Policy Development and Implementation
- Impact Investing and Finance Innovation
- Region-wide Grants and Capacity Building
- Leveraging Co-Benefits to Build Strategic Partnerships
- Communications and Fundraising
- Governance and Operations

The plan is guided by the proposed Strategic Directions for 2019-2022, included in item TA1.3 for Board consideration and approval.

2019 Operating Budget

Attachment 2 provides: (1) the proposed 2019 Consolidated Operating Budget for Board approval, (2) the 2018 Consolidated Operating Budget, and (3) TAF's unaudited 2018 financial results.

TAF's 2019 Budget has been presented to the City's Budget Committee, with Council approval expected in March. Operating expenditures of $4.67M are 6% higher than last year reflecting mandate-related activity to advance climate solutions for the Greater Toronto and Hamilton Area (GTHA) and inflationary increases. TAF is a self-funded agency and has a net zero impact on the City's Operating and Capital Budgets.

Overall Structure and Principles

- The 2018 Consolidated Operating Budget includes projected revenues from both endowments based on the investment profile of each fund, and expenditures relevant to the mandate of each of the funds.

- TAF generally projects investment revenues and expenses conservatively which includes fundraising targets based on past experience as well as contingencies. TAF has implemented "separate fund accounting" that enables annual audit and reporting of both endowments' performance and expenditures.
- In keeping with endowment best practice, TAF has a Stabilization Fund to enable TAF to mitigate variability in its program spending due to fluctuating financial markets which can affect investment income. This internally-restricted reserve fund holds investment returns in excess of the projected returns and is limited to a maximum of 25% of NAV. At the end of FY 2017, the Toronto Stabilization Fund held $6.1M 2017 and the Stabilization Fund established for the Ontario endowment holds zero.
- Investment revenue shortfalls may be funded from the Stabilization Fund; the proposed 2019 budget includes a draw, if needed. The Budget also includes a non-cash backstop for depreciating ESPA-financed energy efficiency equipment.
- Endowments typically establish a Payout Ratio -- where the numerator represents annual operating expenses and the denominator is the endowment's NAV -- to preserve the endowment's capital by constraining the outflow of revenues. In 2006, TAF's Board established the Total Payout Ratio as between 5 – 6 percent of the NAV based on a 4-year rolling average. The notable Payout Ratio drivers include inflation which drives up operating expenses, core staff increases (from 8 to 10 in 2017 as a result of the Ontario endowment, and increasing the endowment. The proposed 2019 Budget maintains compliance with the Total Payout Ratio.

Investment Portfolio Returns (Line A1)

- The investment return for fiscal 2019 on the full portfolio is budgeted at 5.5% and based on a projected NAV of $48.7M ($31.5M Toronto and $17.2M Ontario). This reflects conservative assumptions and perspectives of TAF's Investment Committee and third-party Investment Advisor, and is significantly more conservative than TAF's actual average portfolio return of 12.3% per annum over the past four years.
- The bulk of TAF's revenues are returns from its marketable securities portfolio including realized revenues (from securities sold) and unrealized revenues ("paper" gains) from securities which TAF continues to hold. Returns from direct investments such as interest on loans and ESPA performance contracts contribute the remainder of portfolio revenues. At the end of Q3/2018, TAF's consolidated investment portfolio was invested 52% in global equities and 31% in fixed income holdings, 12% in direct investments and the balance in cash/private equity funds. TAF's investment portfolio allocations are in compliance with the Statement of Investment Objectives & Principles (SIOP) approved by City Council on December 9, 2015.

External Funding (Line A3)

- External funding for 2019 is budgeted at $500K. For the past four years TAF has attracted on average $663K annually in grants for specific projects primarily from governments and utilities. Multi-year funding agreements are recognized by TAF as external revenue only as TAF incurs related project expenditures and the rest of the committed funding is carried on the balance sheet as revenues deferred into the future.

Program Delivery Expenses (Line B3)

- Approximately 80% of TAF's expenses are dedicated to program delivery, including grants to third parties, program staffing, and expenses associated with development and implementation of strategic projects.
- Grants (Line B2) are expected to increase from $900K in 2018 to $1.2M in 2019 to enhance TAF's support for low-carbon initiatives throughout the GTHA. If not fully expended in a given year, up to 25% of the grants budget may be deferred into the next year. 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.

Program Delivery Staffing Expenses (Line B4)

- TAF's core staff complement of ten (10) full-time positions remains unchanged. Approximately 70% of staff time is dedicated to program delivery responsibilities with the balance to corporate activities; this is validated annually.
- In addition, TAF engages contractors (currently nine), funded primarily by external funding who are focused on specific program delivery.

Corporate Expenses (Line C1 and C2)

- Corporate expenditures relate to communications, governance, organizational development and administration.
- In keeping with not-for-profit best practice, TAF's 2019 administrative costs (including salaries) are maintained within 20% of total operating expenses.
- As per the TAF/City of Toronto Relationship Framework, TAF's premises at 75 Elizabeth Street are provided by the City. An interior renovation was undertaken in 2018 which has improved working conditions and capacity. The renovation costs were approved in a previous budget and will be amortized over 5 years.

Corporate Expenses – Amortization/Depreciation (Line B5)

- This non-cash expense line pertains to TAF's ESPA-financed energy efficiency equipment installed in client buildings.

CONTACT

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SIGNATURE

Julia Langer
Chief Executive Officer

ATTACHMENTS

1. 2019 Business Plan: Preparing to Scale
2. 2019 Consolidated Operating Budget