



REPORT FOR ACTION

Federal Contribution to TAF's Endowment

Date: April 12, 2019

To: Toronto Atmospheric Board of Directors

From: Chief Executive Officer

SUMMARY

In Budget 2019, the federal government committed \$183M to the Federation of Canadian Municipalities (FCM) Green Municipal Fund (GMF) to capitalize Low Carbon Cities Canada (LC3) to “provide municipalities and non-profit community organizations with financing and grants to retrofit and improve the energy efficiency of large community buildings as well as community pilot and demonstration projects in Canadian municipalities, both large and small. FCM and Low Carbon Cities Canada Initiatives will create a network across Canada that will support local community actions to reduce GHG emissions”. This includes \$40 million for TAF, with the balance to six other centres across the country modelled on TAF.

TAF's mandate, geographic focus and core governance remains the same, with this federal contribution enhancing TAF's endowment and therefore TAF's capacity to invest in and accelerate low-carbon solutions in the Greater Toronto & Hamilton Area (GHTA). TAF and the other centres will contribute to and have a role in steering the national coordinating office to be housed within GMF which will support accountability, provide some shared services, and undertake knowledge-transfer to leverage the work of all the centres.

This report sets in motion the actions required for TAF and the City of Toronto to negotiate and approve a contribution agreement with GMF and to develop a strategy for deployment of the new endowment in keeping with TAF's investment policy and target portfolio. It also proposes, if necessary, ‘borrowing’ funds from the Toronto endowment to cover costs of initiating programming in 2020 which would be reimbursed once the federal endowment generates revenues and no later than December 31, 2021.

RECOMMENDATIONS

The Chief Executive Officer Recommends that the Toronto Atmospheric Fund (TAF) Board of Directors:

1. Direct the Chair of the Board to convey its thanks to the Government of Canada for their commitment to accelerating climate action in cities, and the support pledged in Budget 2019 to enhance TAF's endowment and capitalize Low Carbon Cities Canada centres in six other cities across the country;

2. Direct TAF staff to:

- a) Negotiate an agreement with the Federation of Canadian Municipalities Green Municipal Fund (GMF) specifying the terms and conditions for receiving, use of, and accountability for the \$40 million federal endowment whose purpose is to support and advance actions in the GTHA that will reduce greenhouse gas emissions, in consultation with City staff via the City Manager's Office, and with guidance from the Ad Hoc LC3 Working Group and the Investment Committee;
- b) Prepare the terms and conditions of a final agreement with the Federation of Canadian Municipalities Green Municipal Fund (GMF), to the satisfaction of TAF's Solicitor, the City Solicitor, the City Manager, the City's Chief Financial Officer & Treasurer, for the Board and City Council approval at the earliest opportunity.

3. Directs the Ad Hoc LC3 Working Group to:

- a) Expand its membership to include the Chair, two other members of the Board and a member drawn from one of the TAF Committees;
- b) Support TAF's CEO in framing and guiding the negotiation of terms; and
- c) Bring and present the draft agreement to the Board for approval

4. Directs the Investment Committee to:

- a) Develop a plan for prompt deployment of the federal endowment once it is received that is compliant with the Statement of Investment Objectives & Principles and aligned with the Target Portfolio, that mirrors the asset mix of the Toronto and Ontario endowments to the extent possible, and is subject to any conditions/constraints established in the agreement with GMF;
- b) Seek the Board's approval for i) the proposed plan and ii) deployment of the funds with current money managers in keeping with the strategy, recognizing that separate and specific Board approval will be required for any Direct Investments and new managers.

5. Approves the use of up to \$250,000 from the Toronto endowment in 2019 and 2020 for costs associated with initial programming, to be repaid from revenues from the federal endowment no later than December 31, 2021.

FINANCIAL IMPACT

Enhancement of TAF's endowment by \$40 million will generate, using conservative projections, approximately \$2.5 million per year for TAF's operating budget. The net impact to the City's budget is nil.

DECISION HISTORY

On December 5, 2014, TAF's Board approved Strategic Directions for 2015-2020, including #4 (of 7): Mobilize New Resources -- Continue to leverage TAF's excellence as a finance and grant-making innovator and impact investor to encourage the flow of more capital towards low-carbon investments. Continue and amplify project fundraising but avoid competing with affiliates in our sector. And, scan for opportunities that could supplement the TAF endowment to allow more core capacity to deliver on our current mandate. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.TA1.3>

On February 9, 2017, the TAF Board approved TAF's 2017 Business Plan which included a project to "Explore opportunities to attract contributions and/or financing for TAF's core capacities through emerging federal and provincial climate programs". <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.TA14.4>

On February 9, 2018, the TAF Board approved TAF's 2018 Business Plan which included a project to Increase TAF's Capital Pool through "Low Carbon Cities Canada (LC3): As one of six LC3 centres, request a total of \$115 million in federal investment for the network and attract \$40 million as "working capital" to enhance TAF's capacity to invest and advance low-carbon solutions in the GTHA." <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.TA19.4>

On February 22, 2019, the TAF Board approved TAF's 2019 Business Plan, which includes "Low Carbon Cities Canada (LC3): If successful, support the engagement of a national support organization, negotiation of funding agreements, roll-out of capital to six partner centres, and enhancement of TAF's endowment and capacity". <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.TA1.5>

On July 19, 2018, the TAF Board received a presentation regarding LC3, and struck the Ad Hoc LC3 Advisory Group, comprised of the Board Chair and two other members, to provide guidance to staff on advancing the Low Carbon Cities Canada initiative, and if relevant, make recommendations to the Board of Directors of the Toronto Atmospheric Fund concerning implementation of this opportunity, including consultation with the City Manager regarding the Toronto Atmospheric Fund/City relationship. (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.TA21.4>)

The Board received several updates on the progress of the LC3 incubation and Clean Economy Fund support via the CEO's reports <https://www.toronto.ca/legdocs/mmis/2017/ta/bgrd/backgroundfile-109845.pdf> <https://www.toronto.ca/legdocs/mmis/2018/ta/bgrd/backgroundfile-112301.pdf>, and staff updated the advisors several times but no formal meetings have been held. In the weeks leading up to the Budget, TAF consulted with the advisors and colleagues in the City Manager's Office and Environment and Energy Division regarding the initiative.

COMMENTS

On the heels of receiving the Provincial endowment, and in the context of an emerging federal climate action plan, TAF requested that the federal government match the City of Toronto and Province of Ontario contributions to accelerating low-carbon solutions in Canada's most populous urban area. This sparked their interest in whether the TAF model would be relevant in other Canadian cities. With funding from Natural Resources Canada (NRCan) and the Clean Economy Fund (pooling philanthropic contributions from the McConnell, Trottier, Echo, North Growth and Donner Foundations), TAF undertook research and consultation to explore interest in and need for local capacity to accelerate low-carbon solutions.

What emerged was the Low Carbon Cities Canada (LC3) initiative: champions from six other cities/region – Vancouver & Lower Mainland, Edmonton and Calgary, Ottawa, Metro Montreal, and Halifax Region -- dedicated to leveraging TAF's model and experience. TAF continued incubating LC3 including seeking sources for capitalizing endowments, and in August 2018 LC3 made a pre-Budget submission requesting \$183 million. Letters of support were provided by Mayors, MPs, MLAs, and community leaders.

On March 19, 2019, the Federal Government Budget announced \$1.1 Billion to the Federation of Canadian Municipalities Green Municipal Fund (GMF) for four programs relating to energy efficiency and greenhouse gas reduction. One element is "Collaboration on Community Climate Action: \$350 million to provide municipalities and non-profit organizations with financing and grants to retrofit and improve the energy efficiency of large community buildings as well as community pilot and demonstration projects in Canadian municipalities, both large and small. FCM and the Low Carbon Cities Canada Initiatives will create a network across Canada that will support local community actions to reduce GHG emissions."

Of this \$183 million is dedicated to Low Carbon Cities Canada, specifically \$165M as endowment capital for seven LC3 centres, \$12M as operating funds for start-up costs to six of the centres (excluding TAF), and \$6M for a national coordinating office. The balance of \$167 million will administered by GMF to implement an LC3-type program in other cities.

The federal funds will flow to GMF under the terms of their agreement with the government, and then to the seven local centres once contribution agreements have been signed. TAF will receive \$40 million to enhance its endowment, bringing the total asset value to \$87 million. Proceeds from the Federal endowment will be used to undertake The Atmospheric Fund's mandate of advancing greenhouse gas (GHG) mitigation throughout the Greater Toronto and Hamilton Area.

LC3 and GMF have agreed to some basic terms which were key to establishing the funding agreement between GMF and the federal government, specifically:

- Working Capital (endowment) to be held in perpetuity with a commitment to maintaining the original value of the capital which will be invested with returns

used to cover the LC3 Centres' operating costs; as such, TAF must maintain the federal endowment at \$40 million.

- Governance and oversight via a Sub-committee of the GMF Council, recognizing that LC3 is significantly different from GMF's usual projects and there will be special needs for supporting the principles and activities outlined in the LC3 proposal.
- Recipients must have a formal partnership with their municipality and/or regional municipality, including some financial and/or in-kind contribution of the municipality. TAF meets this condition based on our formal relationship via the TAF Act and TAF/City Relationship Framework; TAF's direct alignment with advancing TransformTO, the Council-approved climate action plan; and the City's contribution of in-kind services (ie: premises).
- An annual fee to be paid by the centres to GMF for the purposes of offsetting GMF expenses for governance/management and national office roles and responsibilities.
- Contribution agreements governing the working capital to be reviewed every five years.
- Each centre must leverage of the federal endowment by 80 – 100% from non-federal sources within ten years; TAF already meets this condition. Also, a maximum of 80% from the federal endowment may be contributed to any funded/financed project; TAF can meet this by contributing from the Toronto and Provincial endowments.

It has been advised that a tri-partite agreement between TAF, the City and GMF would best satisfy the TAF Act, Section 8 (1) "Custody and investment of the Fund's money: the money of the Fund shall be in the custody of the City treasurer" which is further reinforced by the Relationship Framework Section 11.1 "Investment Framework: The City is ultimately responsible for TAF investments as set out in the legislation; therefore assets entrusted to TAF are not to be placed outside the reach of Council." While under Section 8 (7) "Delegation: The City Council may, in its sole discretion and subject to any conditions it considers appropriate, delegate any of the powers of the city treasurer under Subsection (1) or (4) to the Fund's board of directors.", the funds being received will significantly expand the corpus of the trust, and thus are considered by City Legal Services to warrant the same level of direct City oversight over the Fund as for the Provincial endowment. Having the City as a party to the agreement will also facilitate terms regarding claims to and disposition of the Federal funds upon dissolution or any other time and requirements for governance and accountability to the City.

The LC3 centres aim to collectively negotiate a term sheet and 'template' agreement with GMF regarding the endowments and the national office role and functions. Each centre, including TAF, will sign a separate agreement with GMF.

A key principle to be advanced in the Agreement will be to maintain TAF's organizational effectiveness and minimizing administrative burden. We will propose

mirroring current governance and accountability requirements including financial reporting, listing of grants and investments, and our Key Performance Indicators including cumulative GHG reduction potential, capital mobilized and where possible, co-benefits such as job creation, health improvements, and resilience.

The mandate, disposition and accountabilities regarding the Toronto and Ontario endowments will be maintained; that is, the former will be used exclusively to undertake TAF's mandate within the City of Toronto, and the latter for the purposes stated in the TAF/City of Toronto/Province of Ontario Transfer Payment Agreement. TAF's practice of separate fund accounting, which is currently implemented for the Toronto and Ontario endowments, will also be applied to the Federal endowment.

The Ad Hoc LC3 Advisory Group that was established by the Board in July 2018 will support TAF in the process of negotiating both the 'template' agreement and the TAF/City/GMF agreement. The membership consisting of the Chair, and two other members of the Board should be expanded and the new appointments made as one of the original members is no longer on the Board.

At this time it is not clear whether TAF's investment of the federal endowment will be subject to any specific or additional conditions over-and-above the Council-approved Statement of Investment Objectives & Principles (SIOP) and Relationship Framework. The Investment Committee will also be consulted in the process of developing an agreement.

To maximize value/returns and minimize costs, funds should be deployed directly to currently-approved managers (versus than the two-step process – first into Fixed Income, then a portion into Public Equities -- that was implemented when the Ontario endowment was received). The Investment Committee will be best-placed to develop a deployment plan for the Federal funds that is in compliance with the SIOP, leverages the capacities of current money managers and secures additional managers as relevant, and ramps up Direct Investments in-line with the recently-adopted Target Portfolio.

The Investment Committee should also consider any policy or governance issues which may need to be addressed to facilitate investment. For instance, the Investment Committee is considering the requirement in Sections 6.3.2 and 11.3.1 of the Relationship Framework that "Council must approve any loans, guarantees or security on loans or lines of credit greater than \$2 million". This was based on the prudent investing principle of not having more than 10% of the endowment (originally \$23 million) in any one transaction, and given a significantly larger Net Asset Value, a higher threshold may be warranted; for example, a \$5 million threshold would limit TAF's exposure to any one transaction to under 6% without Council's approval. Any such change(s) would require City Council approval of an amendment to the Relationship Framework and possibly the SIOP.

Unlike the other six centres, TAF will not receive operating funds for start-up as we are an established organization with the core governance and operating systems in place. The costs of securing the endowment, for instance legal services, will be attributed to the corporate services budget in 2019. Recognizing that investment returns from the

federal endowment will not be available for several quarters, and that it would be inappropriate to start by consuming capital, we propose 'borrowing' up to \$250,000 from the Toronto endowment returns in 2019 and 2020 to initiate programming, for instance grants, programs, and incremental staffing (core and/or contract), to be repaid from the federal endowment returns by December 31, 2021.

With the aim of receiving funds as early as the fall, the following schedule has been drafted to guide the process of planning, negotiations and approvals of a tri-partite agreement, specifically:

- May – June – development of term sheet in consultation with Ad Hoc advisory group and City staff; legal drafting
- July 11 -- TAF Board meeting -- Board approval of an Agreement and request, via the City Manager's Office, for Council approval of the Agreement and any other approvals required for implementation
- Alternatively, mid-August -- special meeting of the Board for the purpose above
- September 18 – Executive Committee -- City Manager's report recommending Council approval to be submitted by September 4
- October 2-3 -- Council meeting – Council approval of the Agreement

CONTACT

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SIGNATURE

Julia Langer
Chief Executive Officer

ATTACHMENTS
