TA5.4

The Atmospheric Fund

REPORT FOR ACTION

2020 Business Plan and Budget

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

SUMMARY

A 2020 Business Plan and Budget are presented for Board consideration and approval. It provides an overview of our priorities for the coming year, and outlines specific activities to be undertaken to achieve the stated objectives. The plan is guided by TAF's Strategic Directions and Theory of Change, understanding of the greenhouse gas emission sources and reduction opportunities across the GTHA, perspectives on opportunities for climate policy implementation, and analysis of the successes and challenges experienced in our past work. It was designed and developed by the full staff team.

Implementation of the Business Plan will be supported by the proposed 2020 Operating Budget of $5.6 million. Projected revenues are based on a maintaining the same performance on marketable securities as last year, with returns on the federal endowment starting only in Q4; returns on current and new Direct Investments; and a conservative estimate of external revenues. Expenditures are based on the available resources projected and compliance with the Payout Ratio established to protect the endowments. The budget reflects 13 core staff positions (incremental increase of 3) and ten term contract positions. The budget has been submitted for City approval with "net zero" impact on the City's budget.

RECOMMENDATIONS

The Chief Executive Officer recommends that the Board of Directors approve TAF's 2020 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 2019 Business Plan was approved at the February 22, 2019 Board meeting (http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.TA1.5).

COMMENTS

The proposed 2020 Business Plan "Activating Speed and Scale" (Attachment 1) is presented for Board approval. It is guided by the Strategic Directions for 2019-2022 and information about greenhouse gas emissions sources viable opportunities for reduction, structured to utilize TAF's unique strengths and focus our efforts for maximum impact, and builds on insights from our stakeholders and past experience. In 2020 we aim to:

- Secure and pass effective policies for decarbonizing new and existing buildings
- Launch the GTHA's first 'retrofit delivery centre'
- Secure and pass effective policies for decarbonizing transport
- Light the way for EV charging infrastructure in the GTHA

The plan outlines priorities for

- Programs demonstrating low-carbon solutions
- Policy development and advocacy
- Impact investing and finance innovation
- Grants and capacity building
- Communications and regional outreach
- Finance, Operations and Governance
- Quantification and Evaluation

The proposed 2020 Operating Budget (Attachment 2) is presented for Board approval. The 2019 Operating Budget is provided for comparison. Notable features include:

- TAF has implemented "separate fund accounting" that enables annual audit and reporting of both endowments' performance and expenditures separately. The annual Operating Budget is consolidated.

- Overall budget is $5.63M or 20% higher than last year reflecting increased capital, including the federal endowment, with spending dedicated to new mandate-related activity to advance climate solutions for the Greater Toronto and Hamilton Area (GTHA) and inflationary increases.
- The 2020 Consolidated Operating Budget includes projected revenues from three endowments – Toronto and Ontario (estimated at $49M) and the new Federal ($40M) which we estimate will be received in Q3 and starting earning in Q4. Returns (stated as realized and un-realized) on marketable securities are projected

based on a conservative 5.5% return, which is significantly more conservative than TAF's actual average portfolio returns annum over the past four years. Direct Investment revenues are budgeted based on projected income on TAF's current book of investments (ESPAs and loans) and approximately 3-5 new transactions in the year.

- At the end of 2019 (un-audited), TAF's consolidated investment portfolio was invested 58% in global equities, 20% in fixed income holdings, 19% in direct investments, 1.5% Private (Pooled) Equity, with third party managers holding some cash. Global equity holdings are slightly above the Statement of Investment Objectives & Principles (SIOP) maximum of 55% which will be rectified by end of Q1.
- External Funding is conservatively budgeted at $500K – less than what TAF has actually attracted, mainly from governments and utilities, and mainly for our TowerWise projects. 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.
- Investment revenue shortfalls may be funded from the Stabilization Fund; the proposed 202 budget includes a draw, but very rarely is this needed given our conservative revenue projections. 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. The amounts in the Stabilization Funds will be adjusted in the context of the 2019 audit.
- Approximately 80% of TAF's expenses are dedicated to Strategic Programs including Grants to third parties, program staffing, and direct expenses associated with development and implementation of strategic projects. Funds available for Grants will remain at $1.2M in 2020 with the priority on projects aligned with TAF's focus areas and that demonstrate potential for advancing low-carbon solutions throughout the GTHA. If not fully expended in a given year, up to 50% of the grants budget may be deferred into the next year; in fact, approximately $500K has been carried forward from 2019. 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.
- Permanent full-time positions have been increased incrementally to 13. Approximately 70% of staff time is dedicated to program delivery responsibilities with the balance to 'administrative' functions; the 70/30 split is validated annually. In addition, TAF has ten term contractors, funded both by specific project allocations and external funding, who are focused on delivering specific programs.
- In keeping with not-for-profit best practice, TAF's 2020 'administrative' costs -- including salaries and expenses related to IT, legal and audit services, corporate communications, etc -- are maintained within 20% of total operating expenses. These have increased incrementally reflecting the new endowment. As per the TAF/City of Toronto Relationship Framework, TAF's premises at 75 Elizabeth Street

are provided by the City; the costs of the interior renovation undertaken in 2018 are being amortized over 5 years.

- Endowments typically establish a Payout Ratio -- where the numerator represents annual operating expenses and the denominator is the Net Asset Value (NAV) -- to preserve capital by constraining the expenses. In 2006, TAF's Board established Total Payout Ratio of 5 – 6 percent of the NAV based on a 4-year rolling average. The proposed 2020 Budget is in compliance with the Total Payout Ratio.

TAF's 2020 Budget has been presented to the City's Budget Committee, and it will go forward for Council this month. TAF is a self-funded agency and has a net zero impact on the City's Operating and Capital Budgets.

CONTACT

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SIGNATURE

Julia Langer
Chief Executive Officer

ATTACHMENTS

1. 2020 Business Plan: Activating Speed and Scale
2. 2020 Consolidated Operating Budget