REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Indicative Term Sheet for TAF's Federal Endowment

Date: February 3, 2020
To: Toronto Atmospheric Board of Directors
From: Chief Executive Officer

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report pertains to negotiations carried on or to be carried on by or on behalf of the Toronto Atmospheric Fund.

SUMMARY

The Government of Canada, via the Federation of Canadian Municipalities (FCM), provided $350 million for an urban climate action program which includes $183 million for the Low Carbon Cities Canada (LC3) initiative incubated by TAF. This will provide endowments to TAF and six other centres modelled on TAF; the balance is for an endowment to be managed by the FCM's Green Municipal Fund (GMF).

The seven LC3 centres, including TAF, have negotiated a non-binding Indicative Term Sheet which will guide the development of individual Funding Agreements with FCM. It applies only to the federal endowment funds. Much of this has been modelled on TAF's existing policies and practices.

It is expected that TAF's Funding Agreement, which will be a tri-partite agreement between TAF, the City of Toronto (COT) and FCM, will be completed within a month. It will be tailored to include terms relevant to the protection of the Toronto and Ontario endowments and TAF's governance and accountabilities. Approval of the Funding Agreement by both TAF's Board and City Council will be required.

It is recommended that TAF's Board approve the non-binding Indicative Term Sheet.

RECOMMENDATIONS

The Chief Executive Officer recommends that the Toronto Atmospheric Fund Board of Directors:

1. Approve the Indicative Term Sheet as substantially summarized in Confidential Attachment 1, and direct the Chief Executive Officer to execute it.

2. Direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety as it pertains to negotiations carried on or to be carried on by or on behalf of the Toronto Atmospheric Fund.

FINANCIAL IMPACT

None to the City of Toronto

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, 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 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)

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)

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 were held. In the weeks leading up to the Federal Budget, TAF consulted with the advisors and colleagues in the City Manager's Office and Environment and Energy Division regarding the initiative.

Following the Federal Budget, at its Board Meeting of April 30, 2019 (http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.TA2.4), the TAF Board directed staff to negotiate and prepare an agreement with the Federation of Canadian Municipalities for receiving, use of, and accountability for the $40 million federal endowment, 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 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; directed the Ad Hoc LC3 Working Group to: expand its membership, support TAF's CEO in framing and guiding the negotiation of terms; and present the draft agreement to the Board for approval; directed the Investment Committee to develop a City and FCM compliant plan for prompt deployment of the federal endowment, seek the Board's approval for the proposed plan and deployment of the funds; and approved 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.

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 prompted them to consider 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 LC3 initiative: champions from six other urban regions – Metro Vancouver, Edmonton, Calgary, Ottawa, Metro Montreal, and Halifax Region – dedicated to leveraging TAF's model and experience to create their own local, low-carbon funds. 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 FCM's Green Municipal Fund (GMF) for four programs relating to energy efficiency and greenhouse gas (GHG) reduction. One element was "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 was dedicated to LC3, specifically $165M as endowment capital for seven LC3 centres, including $40 million for TAF, $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 was to be administered by GMF to implement an LC3-type program in other cities.

The federal endowment will bring TAF's asset value to approximately $90 million. TAF's mandate, geographic focus and core governance remains the same, with the proceeds from this federal contribution being used to enhance TAF's capacity to invest in and accelerate low-carbon solutions in the Greater Toronto & Hamilton Area (GHTA).

At the Board's direction, staff have engaged in the preparation and negotiation of a Funding Agreement with FCM governing the receipt and use of, and accountability for, the $40 million federal endowment. The approach has been to develop a non-binding Indicative Term Sheet between the seven LC3 centres and FCM which is intended to guide the development of the individual Funding Agreements. The LC3 groups collectively hired legal representation and prepared the first draft in September 2019. FCM responded in December 2019. LC3 and FCM undertook further revisions in January to arrive at a version being advanced for the signature of all seven organizations and FCM. This is presented for Board approval.

It was agreed that a tri-partite agreement between TAF, the City and FCM would best satisfy the TAF Act, Section 8 (1) "Custody and investment of the Fund's money" and TAF's 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." 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 as the provincial endowment.

TAF consulted with and received input from City colleagues regarding what needed to be in the Indicative Term Sheet to set the stage for the tri-partite Funding Agreement. Terms of particular importance include: no governance, control or conditionalities over, or claims or recourse to the Toronto and Ontario endowments (i.e., the terms of the federal Funding Agreement apply only to the federal endowment and the mandate, disposition and accountabilities regarding the Toronto and Ontario endowments will be maintained); and the application of separate fund accounting, which is currently implemented for the Toronto and Ontario endowments.

TAF has regularly updated and sought guidance from the Ad Hoc LC3 Working Group established by the Board regarding the emerging terms and process for negotiation. As directed by the Board, they will present a Funding Agreement for the Board's consideration and approval.

Also at the Board's direction, the Investment Committee, with support from Proteus Performance Management, TAF's third-party investment advisor, has developed a plan for prompt deployment of the federal endowment that is prudent and compliant with TAF's Statement of Investment Objectives & Principles. This will be provided when the TAF/COT/FCM Funding Agreement is advanced for Board approval.

CONTACT

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SIGNATURE

Julia Langer
Chief Executive Officer

ATTACHMENTS

Confidential Attachment 1 – Summary of Indicative LC3 Term Sheet