

2021 Budget Notes

Toronto Atmospheric Fund

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Description

Toronto Atmospheric Fund (TAF) is a regional climate agency that invests in low-carbon solutions for the Greater Toronto and Hamilton Area (GTHA) and helps scale them up for broad implementation. We are experienced leaders and collaborate with stakeholders in the private, public and non-profit sectors who have ideas and opportunities for reducing carbon emissions. Supported by endowment funds, we advance the most promising concepts by investing, providing grants, influencing policies and running programs. We're particularly interested in ideas that offer benefits in addition to carbon reduction such as improving people's health, creating local jobs, boosting urban resiliency, and contributing to a fair society.

Why We Do It

TAF's ultimate goal is to reduce carbon emissions to net-zero by 2050 in the Greater Toronto and Hamilton Area. This target isn't simply another milestone. It's a vision for a climate-smart urban region that functions within its environmental means and is a leader among climate-friendly urban centres around the world. This is aligned with TransformTO, the City of Toronto's climate action plan, and the declaration of a climate emergency adopted by Council.

The City of Toronto aims to deliver these outcomes equitably, efficiently and with excellent customer service to help improve the lives of Torontonians and work to earn their trust and confidence.

What Service We Provide

Service 1: Grants

Who We Serve: Not for profit organizations, charities, academia, research institutions and municipalities in the GTHA who are eligible to receive TAF grants, and internal project teams.

What We Deliver: Strategic grants and contributions to TAF projects which demonstrate and advance reduction of Greenhouse Gas (GHG) emissions, along with other benefits.

How Much Resources (gross operating budget): \$1.911 million

Service 2: Impact Investing

Who We Serve: Businesses and enterprise with low-carbon projects and activities, non-profit and for-profit institutional co-investors, the wider financial sector as interest grows in ESG.

What We Deliver: Investment in marketable securities, and direct investments in projects and companies that are aligned with TAF's mandate, generate a risk-adjusted return, and mobilize financial capital for urban low-carbon solutions.

How Much Resources (gross operating budget): \$1.676 million

Service 3: Program and Policy Advocacy

Who We Serve: Government (Municipal, Provincial, and Federal), businesses and industry, not for profits, and other institutions promoting and delivering GHG reductions.

What We Deliver: Strategic programs and policy advocacy that can eliminate barriers and help achieve at-scale GHG reductions for the GTHA and other benefits like improved health, job creation, and economic value.

How Much Resources (gross operating budget): \$3.215 million (with a significant portion of this from external funding, alongside endowment proceeds)

Service 4: Operations and Governance

Who We Serve: City Council, Province of Ontario and Government of Canada via Federation of Canadian Municipalities, and the wider community including industry partners, not for profits, academia, citizens in the GTHA

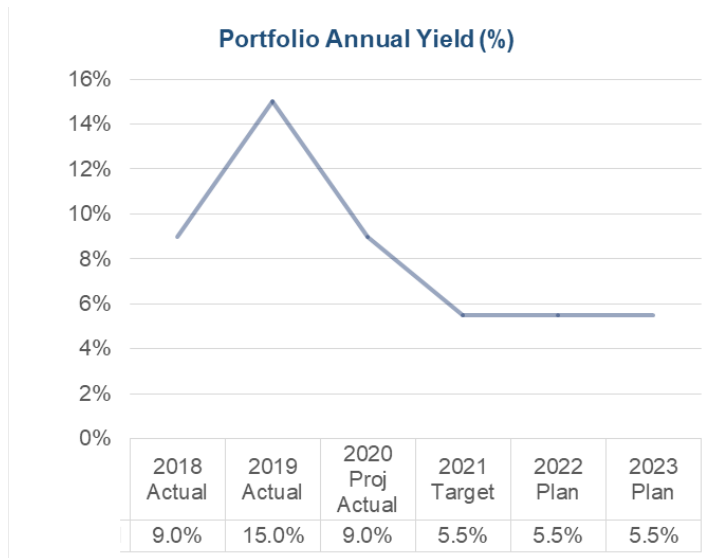
What We Deliver: A high standard of accountability and compliance with all governance requirements, efficient and effective operations, and a diverse, learning, collaborative and mission-focused culture.

How Much Resources (gross operating budget): \$1.098 million

Budget at a Glance

2021 OPERATING BUDGET				2021 - 2030 10-YEAR CAPITAL PLAN			
\$Millions	2021	2022	2023	\$Millions	2021	2022-2030	Total
Revenues	\$7.9	\$8.0	\$8.1	Toronto Atmospheric Fund has no capital budget			
Gross Expenditures	\$7.9	\$8.0	\$8.1				
Net Expenditures	\$0.0	\$0.0	\$0.0				
Approved Positions	15.0	15.0	15.0				

How Well We Are Doing – Behind the Numbers



- TAF's marketable investments portfolio had an average return of 8.1% over 2015 - 2019. The 5.5% annual revenue projection is conservative, especially as the new Canada fund is deployed.
- Direct investments are being increased to reduce the portfolio's volatility, increase risk-adjusted return, and achieve more mandate-related impact.
- TAF attracts external revenues (donations) for specific projects from various sources; an ambitious target has been set for 2021 given federal funding programs for low-carbon solutions.
- TAF maintains a Stabilization Fund – one for each endowment -- to mitigate exposure to the variability of investment earnings from year to year.
- TAF's total operating budget is within the Payout Ratio established by the Board of between 5-6% of the Net Asset Value, on a 4-year rolling average.

How Well We Are Doing

Service	Service Measure	2018 Actual	2019 Actual	2020 Target	2020 Projection	2021 Target	2022 Target	Status
Outcome Measures (In \$000s)								
Grants	Total value of grants issued	\$976.0	\$658.0	\$1,200.0	\$1,500.0	\$1,632.0	\$1,664.0	●
Direct Investment (Asset Value)	Total value of equity/loan investments	\$7,563.0	\$9,051.0	\$12,000.0	\$11,441.0	\$15,000.0	\$18,000.0	●

COVID-19 IMPACT AND RECOVERY

2020 Impact	2021 Impact and Recovery
Financial Impact (Operating) <ul style="list-style-type: none"> N/A 	Financial Impact (Operating) <ul style="list-style-type: none"> N/A
Financial Impact (Capital) <ul style="list-style-type: none"> N/A 	Financial Impact (Capital) <ul style="list-style-type: none"> N/A
Service Level Changes <ul style="list-style-type: none"> N/A 	Service Level Changes <ul style="list-style-type: none"> N/A

- Toronto Atmospheric Fund (TAF) has had minimal effects from COVID-19. During the market downturn experienced in Q1 and Q2 2020, TAF's marketable securities portfolio which generate the bulk of TAF's revenues, experienced a 14% decline. As a long-term investor, market variability must be expected and the best medicine is to hold and not crystalize losses. In response, TAF paused several projects, paused three planned hires, re-profiled several Grant payments, generally tightened the cash flow management and actively managed our lines of credit to avoid having to redeem securities for liquidity. All Direct Investments were stress-tested, with only one experiencing some COVID-19 related implementation delays. TowerWise-funded retrofits were paused during the initial lockdown but recommenced with appropriate protocols when construction was deemed an essential service. As of March, all TAF staff started working from home and TAF provided various types of support to make this possible and to maintain the team culture and collaboration that is key to TAF's effectiveness. Markets recovered in Q3 2020 the portfolio looks set to generate the projected revenues by end of Q4 2020, leaving TAF in a positive position.

EXPERIENCES, CHALLENGES AND PRIORITIES

Our Experience and Success

- Toronto Atmospheric Fund (TAF) has 30 years of history and experience to draw from in policy advocacy, program delivery, and grant-making and impact investing.
- This year required the TAF team to rapidly adjust to remote work, which we did successfully in March and April 2020.
- While the team has been impacted and projects and processes juggled as resources required, TAF's overall delivery, staff engagement and a sense of team remains strong; Board and Committee public meetings now offer remote participation and have continued uninterrupted.
- Our investment portfolio, while initially impacted in Q2 2020, has bounced back and performed well; and in November 2020, TAF received an additional endowment of \$40 million from the Government of Canada bringing our total fund to \$88 million. The Canada endowment also marks TAF as a member of Low Carbon Cities Canada – a network of urban climate action agencies.
- Our work in delivering deep energy and electrification retrofits in buildings, including case studies and other evaluations, has led to the design of a new strategy to scale and accelerate net-zero retrofits through a "Retrofit Delivery Centre".
- 23 grants made to community organizations across the Greater Toronto Hamilton Area, in areas of new construction, retrofits, electrification of transportation and policy advocacy.
- Strong growth in our communications online and through direct outreach; including monthly blogs and e-newsletters, steady social media presence and several webinars. All annual audience engagement and growth targets achieved.

Key Challenges and Risks

- Endowment requires active management and specialized oversight to maintain compliance, mitigate against losses, and achieve risk-adjusted returns and impact.
- Many factors influence ability to achieve GHG reduction KPI and other important metrics (such as social and economic benefits) which requires nimbleness and ability to pivot and adapt strategies and tools.
- Global financial markets can be volatile and it will take some time to build up the Stabilization Fund buffer for the Ontario and Canada endowments.
- Retaining top talent is key to TAF's success and requires attention to maintaining a great culture, opportunity for professional development and a total rewards package, especially as climate action is embraced by private and public organizations.

Priority Actions

- Invest the endowment prudently to generate GHG impact and financial return, and maintain compliance with Council-approved investment policy and other requirements.
- Continued grant-making for greater success, focusing on intersecting social issues and scaling.
- Ensure good governance and accountability to 'shareholders' and stakeholders, and maintaining a well-functioning staff team.
- Implement programs and advance policies that accelerate GHG emissions reductions with a priority focus on retrofitting of existing buildings, net-zero new construction, electrification of transportation, and low-carbon fuels.
- Attract external revenues to support strategic programs including TAF's Retrofit Delivery Centre, deployment of electric vehicle charging infrastructure, and leading-edge GHG quantification.

RECOMMENDATIONS

The City Manager and Chief Financial Officer and Treasurer recommend that:

1. City Council approve the 2021 Operating Budget for Toronto Atmospheric Fund of \$7.900 million gross, \$7.900 million revenue and \$0.0 million net for the following services:

Service:

	Gross Expenditures (\$000s)	Revenue (\$000s)	Net Expenditures (\$000s)
Toronto Atmospheric Fund	7,900.0	7,900.0	0.0
Total Program Budget	7,900.0	7,900.0	0.0

2. City Council approve the 2021 staff complement for Toronto Atmospheric Fund of 15.0 positions, entirely comprised of operating service delivery positions.

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2021 OPERATING BUDGET

2021 OPERATING BUDGET OVERVIEW

Table 1: 2021 Operating Budget by Service

(In \$000s)	2019 Actual	2020 Budget	2020 Projection	2021 Base Budget	2021 New / Enhanced	2021 Budget	Change v. 2020 Projection	
By Service	\$	\$	\$	\$	\$	\$	\$	%
Revenues								
Investment Income and External Fundraising	8,664.0	5,630.0	5,771.0	7,900.0	-	7,900.0	2,129.0	36.9%
Total Revenues	8,664.0	5,630.0	5,771.0	7,900.0	-	7,900.0	2,129.0	36.9%
Expenditures								
Program Delivery Expenses	2,684.0	3,284.0	3,539.0	4,690.0	-	4,690.0	1,151.0	32.5%
Administrative Expenses	269.0	513.0	409.0	660.0	-	660.0	251.0	61.4%
Salaries and Benefits	1,490.0	1,833.0	1,823.0	2,550.0	-	2,550.0	727.0	39.9%
Total Gross Expenditures	4,443.0	5,630.0	5,771.0	7,900.0	-	7,900.0	2,129.0	36.9%
Net Expenditures	- 4,221.0	-	-	-	-	-	-	N/A
Approved Positions	13.0	13.0	13.0	15.0	-	15.0	2.0	15.4%

COSTS TO MAINTAIN EXISTING SERVICES

Total 2021 Base Budget expenditures of \$7.900 million gross reflecting an increase of \$2.129 million in spending above 2020 projected year-end actuals, predominantly arising from:

Salaries and Benefits:

- Two (2) additional core positions being added to support the increased services required to invest the federal endowment and to use the proceeds from the enhanced endowment into TAF's services areas.

Grants and Programs:

- Additional grants and program allocations based on enhanced endowment.

Financial Market Factors:

- Market performance is the key driver of TAF revenues; low Fixed Income/Bond yields will be mitigated by diversifying the portfolio into less interest-rate driven products and Global Equity positions will be reduced in favour of less potentially volatile Direct Investments which are also aligned with TAF's mandate.

Other Revenue Changes:

- Addition of \$40 million endowment from the Government of Canada is the key driver of TAF's 2021 budget; very conservative assumptions have been made including receiving the funds in Q3 2020 and phased deployment of the asset, initially into bonds and into equities over four quarters.

Given the financial impacts of COVID-19 on 2020 actuals, a further comparison of the 2021 Recommended Budget to the 2020 Council Approved Budget is provided below:

- 2021 Base Budget totalling \$0.0 million in net expenditures reflects a \$0.0 net increase above the 2020 Council Approved Budget.**

EQUITY IMPACTS OF BUDGET CHANGES

No significant equity impacts: The changes in Toronto Atmospheric Fund's 2021 Operating Budget do not have any significant equity impacts.

2021 OPERATING BUDGET KEY DRIVERS

The 2021 Operating Base Budget for Toronto Atmospheric Fund is \$2.129 million gross or 36.9% higher than the 2020 Projected Actuals. Table 2a below summarizes the key cost drivers for the base budget.

Table 2a: 2021 Key Drivers – Base Budget

Key Cost Drivers	2019 Actuals	2020 Budget	2020 Projection	2021 Base Budget	Change Vs. 2020 Projection	
					\$	%
Expenditures						
1 Salaries and Benefits	1,490.0	1,833.0	1,823.0	2,550.0	727.0	39.9%
2 COVID-19 Impact					-	
3 Other Expenditures	2,953.0	3,797.0	3,948.0	5,350.0	1,402.0	35.5%
Total Expenditures	4,443.0	5,630.0	5,771.0	7,900.0	2,129.0	36.9%
Revenues						
1 Other Revenues	8,664.0	5,630.0	5,771.0	7,900.0	2,129.0	36.9%
Total Revenues	8,664.0	5,630.0	5,771.0	7,900.0	2,129.0	36.9%
Net Expenditures	- 4,221.0	-	-	-	-	
Approved Positions	13.0	13.0	13.0	15.0	2.0	15.4%

Total Revenue Changes:

- The increase in revenue is a reflection of a) receipt of the \$40 million Canada Endowment which is invested in public equities and fixed income, and direct investments, and b) a significant projected increase in external revenue, mainly for the TowerWise Program for energy efficiency retrofits of multi-unit residential buildings.

Total Expenditure Changes:

- Expenditures are directly correlated with the projected changes in investment revenues and from external funding; the latter will not be spent unless it is raised.
- Increase in expenditures includes two additional permanent positions based on endowment capacity and additional contract positions supported by external revenues, if that is raised.

2022 & 2023 OUTLOOKS**Table 3: 2022 and 2023 Outlooks**

(\$000s)	2020 Projection	2021 Budget	2022 Outlook	2023 Outlook
Revenues	5,771.0	7,900.0	8,000.0	8,100.0
Gross Expenditures	5,771.0	7,900.0	8,000.0	8,100.0
Net Expenditures	-	-	-	-
Approved Positions	13.0	15.0	15.0	15.0

Key drivers

The 2022 Outlook with total gross expenditures of \$8.000 million reflects an anticipated \$0.100 million or 1.27 per cent increase in gross expenditures above the 2021 Operating Budget; The 2023 Outlook expects a further increase of \$0.100 million or 1.25 per cent above 2022 gross expenditures.

These changes arise from the following:

- Receipt of additional Federal Endowment of \$40 million.
- Increased administrative activity to support accountability/reporting for Federal Endowment.

APPENDICES

Appendix 1

COVID-19 Financial Impact - Operating

N/A

Appendix 2

2021 Operating Budget by Revenue / Expenditure Category

N/A

Appendix 3

Summary of 2021 Service Changes

N/A

Appendix 4

Summary of 2021 New / Enhanced Service Priorities Included in Budget

N/A

Appendix 5

Summary of 2021 New / Enhanced Service Priorities Not Included in Budget

N/A

Appendix 6

**2021 Capital Budget;
2022 - 2030 Capital Plan Including Carry Forward Funding**

N/A

Appendix 6a

2021 Cash Flow and Future Year Commitments Including Carry Forward Funding

N/A

Appendix 6b

2022 - 2030 Capital Plan

N/A

Appendix 7

Reporting on Major Capital Projects: Status Update

N/A

Appendix 8

Summary of Capital Needs Constraints

(In \$ Millions)

N/A

Appendix 9

**2021 User Fee Changes
(Excludes User Fees Adjusted for Inflation)**

N/A

Appendix 10

Inflows and Outflows to/from Reserves and Reserve Funds

N/A

Appendix 11

Glossary

Approved Position: Permanent or temporary positions that support the delivery of City services and service levels as approved by Council.

Actuals: An actual financial amount paid (or received) for the delivery of City services (these exclude any commitments to be paid in the future).

Capacity to Spend: Ability to spend money along with the capacity to deliver projects as demonstrated by historic spending patterns and approved contractual obligations.

Capital Budget: A Capital Budget is the City's plan to acquire / build assets or extend the useful life of existing assets; an example of a capital expenditure is the construction of a new community centre.

Capital Needs Constraints: The capital needs that cannot be accommodated within the capital plan that the Division or Agency have the capacity to deliver.

Complement: Positions that support the delivery of City services and service levels as approved by Council.

Efficiencies: Reductions in the cost of delivering a service without a reduction in service level.

New / Enhanced: New and enhanced service changes resulting in an increase in service levels from what was previously approved by Council.

Operating Budget: An Operating Budget is the City's annual plan to provide services to the residents of Toronto; the budget includes all revenues and expenses needed to provided services; an example of an operating cost would be the cost to run the TTC subways.

Operating Impact of Completed Capital Projects: The additional expense (or savings) and positions needed to operate or maintain a new asset; an example would be the additional expense and staff needed to operate a recently completed community centre.

Rate Supported Budget: Budget fully funded by user fees such as Solid Waste, Toronto Water and Toronto Parking Authority

Staff Recommended Operating / Capital Budget: An operating or capital budget recommended by City Manager and Chief Financial Officer and Treasurer to City Council for consideration and approval.

State of Good Repair (SOGR): The cost of maintaining assets to ensure they are able to support the delivery of City services and meet service outcomes

Tax Supported Budget: Budget funded by property taxes.

User Fees: Program generated fee and rental revenue for the use of its services (such as the TTC fare, ice rental fees and various City permits).

Value Based Outcome Review (VBOR): The City conducted a Value Based Outcome Review in 2019 for all of its operations and agencies to identify specific opportunities and strategies to maximize the use of tax dollars, enhance its financial sustainability while achieving service outcomes. These opportunities will help the City chart its financial course in the next four years.

Voluntary Separation Program – On July 28th, 2020, City Council approved the implementation of a Voluntary Separation Program for staff who are eligible to retire with an unreduced pension providing a lump sum payment of up to three months' salary to eligible employees, subject to the terms of the program guidelines, funded through savings generated from a combination of permanently eliminating vacated positions and/or holding the positions vacant for a minimum of six months.