TAF The Atmospheric Fund

REPORT FOR ACTION

Draft 2022 Consolidated Operating Budget

Date: October 22, 2022
To: Toronto Atmospheric Board of Directors
From: Director of Finance

SUMMARY

TAF's 2022 Operating Budget is presented for Board consideration and approval.

The opening net asset value (NAV) of TAF's three endowments is estimated at $104 million.

Revenues have been budgeted based on: a conservative annual return of 5.5% on the marketable securities portfolio; an attainable direct investment portfolio that factors in risk / return expectations; attracting external revenues for specific projects in line with previous years' results; using some of the $2 million Canada operating funds; and a one-time draw from the Toronto endowment recognizing consistent above-projected returns which has filled the Stabilization Fund.

Expenditures are based on: the available resources, including investment proceeds and external funds (which are not spent until raised); the minimum grant and maximum administrative expense requirements; and compliance with the Payout Ratio established to protect the endowments. The proposed budget includes both permanent and term contract positions.

The 2022 Business Plan to advance climate solutions for the Greater Toronto and Hamilton Area (GTHA) will be presented to the Board at the first meeting of 2022 and will be crafted in keeping with the approved 2022 Operating Budget.

RECOMMENDATIONS

The Director of Finance recommends that the Board of Directors of the Toronto Atmospheric Fund approve the 2022 Consolidated Operating Budget as presented in Attachment 1.

FINANCIAL IMPACT

None to the City. A draft budget has been submitted to the City of Toronto for consideration and approval in its budget reflecting "net zero" impact on the City's Operating and Capital budgets.

DECISION HISTORY

TAF's 2021 Consolidated Budget was approved by the Board at its meeting November 6, 2020. (http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.TA9.3)

COMMENTS

The proposed 2022 Consolidated Operating Budget (the Budget) is presented for Board approval as set out in Attachment 1. Notable features are highlighted below.

- Revenues of $8.975 million (Line 7) and Expenses of $8.975 million expenses (Line 25) with a net zero balance. This is 13.5% higher than 2021.
- Realized and un-realized gains from TAF's marketable securities portfolio, which takes into account full deployment of the Canada endowment, totals $5.5M and accounts for 62% of revenues (Line 2). These are projected based on a conservative estimated annual return of 5.5% for the blended Fixed Income and Global Equities portfolio, recognizing that the latter will be reduced as funds are advanced into Direct Investments.
- Direct Investment revenues (Line 3) are based on TAF's current book of investments (including ESPAs, loans and other instruments) and projected income from approximately five new transactions in the year; opportunities in early stages of due diligence are not included. The book is primarily owned by the Toronto endowment but in 2021 the Ontario and Canada endowments began participating in new investments within the prescribed limits of the endowment agreements.
- External Funding of $1.5 million is projected (Line 4). This is in line with 2021 and reflects confidence in attracting contributions from governments and foundations, mainly for Retrofit Accelerator and retrofit implementation. Multi-year funding agreements are only recognized as project expenditures are incurred and the rest of the committed funding is carried on the balance sheet as revenues deferred into the future. External funding is allocated to and disbursed from the three funds proportionately.
- Of the $40 million Canada fund, $2 million was provided as operating funds which may be spent down; this will be done over several years as it provides a buffer for maintaining the $38 million nominal value of the endowment while the NAV is built up. $1.795M remained at the end of 2020, up to $300,000 is budgeted for 2021 expenses, and $212.5K (half of Line 6) has been budgeted for 2022 which will be dedicated to mandate-related expenses. As per the Auditor's direction, the entire $2 million was included in 2020 revenue and is now part of the NAV, therefore this revenue is technically a NAV drawdown.
- TAF has enjoyed several consecutive years of investment returns well above projected, which are generally contributed to the Stabilization Fund. However, since 2020 contributions no contributions have been made to the Toronto Stabilization Fund as it has reached its maximum 25% of NAV; see note below. A special, one-time draw of $212.5K (half of Line 6) is budgeted which will be dedicated to mandate-related expenses.

- In keeping with endowment best practice, TAF maintains a Stabilization Fund for each of the endowments to enable TAF to mitigate variability in its program spending due to fluctuating financial markets which can affect investment income. In years where the actual exceeds the projected investment income, the excess may be contributed to the Stabilization Fund; in accounting terms, contributions are transferred from the externally-restricted to internally-restricted funds. The Stabilization Fund balance is limited to 25% of NAV. In years where investment income shortfalls occur the Board can authorize a transfer from the Stabilization Fund back to the externally-restricted fund which can be used for budgeted expenses. The Toronto Stabilization Fund reached the threshold in 2020 but contributions will likely be made to the Ontario and Canada Stabilization Funds in 2021.
- Total Program Expenses of $7.6 million make up 85% of total proposed expenditures (line 17); this is an 11.1% increase from 2021. Direct program (non-Labour) costs of $2.7 million are funded half from endowment proceeds (Lines 9) and half from External Funding (Lines 10); a total increase of 21%. Breaking out the source of funds for expenses helps ensure that external funds are only spend when raised.
- The Grants budget (Line 8) would increase by 5% to a total of $1.7 million. 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.
- TAF's high-performing staff team is key to our impact. Salaries and benefits make up 32% of the expenses. Permanent (aka core) positions have been increased by one to 16 and TAF also has 12 term contractors focused on delivering specific projects; some of the latter are covered by external revenue; additional term contracts may be added if/when external funding is secured. Approximately 80% of staff time is dedicated to program delivery (Line 15) with the balance to Corporate & Engagement (aka administrative) functions (Line 20); the actual split is validated in the context of the annual audit.
- In keeping with not-for-profit best practice and compliance with the Ontario and Canada agreements, TAF's administrative costs (including salaries and direct expenses (ie: IT, governance functions, audit services, corporate communications, certain professional development, etc.)) are maintained within 20% of the operating budget (Line 24). As per the TAF/City of Toronto Relationship Framework, TAF's premises at 75 Elizabeth Street are provided by the City of Toronto; the cost of an internal renovation/office modernization undertaken in 2018 is being amortized over 5 years and some additional costs to facilitate a hybrid office/virtual working environment are budgeted.
- Amortization of $835,000 (Line 16) pertains to the ESPA assets (Toronto fund only) that contribute Direct Investment revenue (Line 3); this is a non-cash expense.
- Endowments typically establish a Payout Ratio -- where the numerator represents annual operating expense and the denominator is the Net Asset Value (NAV) -- to preserve capital by constraining the expenses. The numerator excludes externally-funded expenses (which do not draw on the endowment), amortization (a non-cash expense), use of the Canada operating fund (which is not part of the Canada

endowment) and the proposed one-time draw from the Toronto fund. In 2006, TAF's Board established Total Payout Ratio of 5 – 6 percent of the NAV based on a 4-year rolling average. The projected Payout associated with the proposed Budget is 6% percent and the estimated 4-year moving average (based upon forecast 2021 expenses and 2022 budgeted expenses) is 5.5%.

CONTACT

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SIGNATURE

Robert Wotten
Director of Finance

ATTACHMENTS

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