The Atmospheric Fund

REPORT FOR ACTION

Draft 2023 Consolidated Operating Budget

Date: October 20, 2023
To: Board of Directors of the Toronto Atmospheric Fund
From: Director of Finance

SUMMARY

TAF's 2023 Operating Budget is presented for Board consideration and approval. This is a balanced and self-financed budget, with zero impact on the City's budget.

Revenue for 2023 has been budgeted based on: a projected annual return on the marketable securities portfolio which the Investment Committee considers appropriate; the expected returns on the current book of direct investments and estimated return on additional direct investments during the course of the year; and committed external funding, which has significant potential to be exceeded. The portfolio revenues are lower than 2022 as the net asset value has been eroded due to current market conditions, but the external revenues are higher due to TAF's success in attracting support for various projects.

Expenditures budgeted for 2023 are based on: the projected revenues including investment proceeds and external funds, with attention to the minimum grant and maximum administrative expense requirements and compliance with the Payout Ratio established to protect the endowments.

The 2023 Annual Plan to advance climate solutions for the Greater Toronto and Hamilton Area (GTHA) will be presented to the Board at the first meeting of 2023 and will be crafted in keeping with the approved 2023 Operating Budget.

RECOMMENDATIONS

The Director of Finance recommends that the Board of Directors of the Toronto Atmospheric Fund approve the 2023 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 2022 Consolidated Operating Budget was approved by the Board at its meeting November 6, 2021.
(http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.TA14.2)

COMMENTS

The proposed 2023 Consolidated Operating Budget (the Budget) is presented for Board approval as set out in Attachment 1. Notable features are highlighted below.

- The proposed budget includes Revenues of $9.4 million (Line 7) and Expenses of $9.4 million (Line 25) with a net zero balance. This is 4.5% change from 2022 driven mainly by additional external revenues.
- The 2021 Net Asset Value (NAV) was at a record high of $100.2M, but movement in the public markets has been negative year to date. It is expected the 2022 year-end NAV will be in the $92 to $94M range which has a significant bearing on investment returns and form a significant portion of the revenues. Realized and un-realized gains from TAF's marketable securities portfolio totalling $5.1 million accounts for 54% of revenues (Line 2). This revenue is projected based on an estimated annual return of 5.5% for the blended Fixed Income and Global Equities portfolio, as advised by the Investment Committee. 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; the later will be funded from other elements of the portfolio. The current book of Direct Investments is primarily owned by the Toronto endowment but since 2021 the Ontario and Canada endowments began participating in new investments within the prescribed limits of the endowment agreements.
- External funding of $2.6 million is budgeted (Line 4), which is 71% higher than 2022. The bulk of this is already committed from governments and foundations towards Retrofit Accelerator operations, implementation of specific retrofits and the Electric Vehicle (EV) Station Fund (rebates and operating costs). Multi-year funding agreements are only recognized as project expenditures are incurred. External funding is allocated to and disbursed from the three funds proportionately according to project participation. Staff are confident that additional external revenue can be secured.
- The contribution from the Government of Canada included a $2M operating fund which can be spent down, and which also serves as a 'buffer' to the nominal value of the endowment. The remaining balance as of December 2021 was $1.495 million and no draw is projected in 2022. A $200,000 draw has been budgeted to support operating expenses in 2023, which will only be used if needed.
- Total Program Expenses (excluding Amortization) are budgeted at $5.7 million and make up 61% of total proposed expenditures (Line 25); this is an 13% increase from

2021, mainly only the strength of external funding. Non-labour program expenses of $3 million are funded from endowment proceeds (Line 9) and external funding (Line 10); breaking out the source of funds for expenses helps ensure that external funds are only spent if raised.

- The Grants budget (Line 8) is generally holding steady at $1.6 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. The proposed staff complement by year end 2023 would be 33 persons with 85% of these being program-related and the balance dedicated to corporate/administrative functions; the actual split is validated in the context of the annual audit. The source of funds, whether investment proceeds or external revenues, is also broken out for salaries & benefits. The total cost of Salaries and Benefits (Lines 15 and 20) reflects year one of a phased, two-year adjustment of salaries based the results of a compensation study, as well as four incremental positions, mostly funded by external revenues, to be hired at various points in 2023.
- 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 (e.g.: IT, governance functions, audit services, corporate communications, certain professional development, etc.)) are maintained within 20% of the operating budget (Line 14). As per the TAF/City of Toronto Relationship Framework, Amortization of $700,000 (Line 16) pertains to the ESPA-financed retrofit 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 expenses, 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) or use of the Canada operating fund (which is not part of the Canada endowment). 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 2023 Budget is 6.2% percent and the estimated 4-year moving average (based upon forecast of expenses) is 5.5%.
- Also, 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. Contributions to the Stabilization Funds in 2022 or 2023 year-ends are not contemplated.

CONTACT

Robert Wotten, Director of Finance, rwotten@taf.ca

SIGNATURE

Robert Wotten
Director of Finance

ATTACHMENTS

1. Draft 2023 Consolidated Operating Budget