

## Chief Executive Officer's Report

**Date:** June 29, 2023  
**To:** Board of Directors of the Toronto Atmospheric Fund  
**From:** Chief Executive Officer

### **GOVERNANCE MATTERS**

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#### **Board and Committee News**

Please join me in thanking Graham McBride, TAF's longest-serving volunteer, who has stepped down from the Direct Investment Committee. His deep expertise in mezzanine and project finance, attention to all the due diligence and structuring details, and unwavering commitment to protecting TAF's asset and reputation have been an invaluable asset to our evolving impact investing practice.

#### **Risk Register**

The following highlights the most notable risks for this period and our responses based on senior management's quarterly review of the anticipated risks. There is no material non-compliance in respect of TAF's legislative, regulatory or contractual obligations of which I am aware.

- Financial risk - While direct investment performance is on track, and no single investment represents more than about one percent of the total asset value, we are seeking to significantly scale up allocation to this asset class in order to diversify the direct investment portfolio which mitigates the risk associated with any potential impairment. Additionally, the total portfolio is being diversified with the allocation to Alternatives (Infrastructure) and a search is planned to diversify the fixed income holdings.
- Operational risk - Work is underway to update the accounting codes used for booking program and administrative expenses and to establish monthly and quarterly validation procedures/timelines that are aligned with reporting and audit requirements. This will utilize the sophisticated functionality of the new accounting software and streamline the required cross-team involvement.
- Financial risk – Most government funding is paid in arrears, delays in receiving payments can strain cashflow and force inopportune redemption of securities. We are assured by the relevant department that evolving claim requirements and short-staffing challenges have been resolved going forward.

#### **TO/TAF Governance**

Most of the governance updates approved by the TAF Board and City Council in 2022 are being operationalized and two – Debt Policy and Purchasing Policy – are under development.

### **ON/TAF/TO Transfer Payment Agreement (TPA)**

TAF's 2022 Annual Report profiling key financial metrics, mandate-related accomplishments, and compliance requirements was presented to the Ministry of Municipal Affairs and Housing. To the best of my knowledge, this confirms that TAF is in compliance with the terms of the Transfer Payment Agreement.

### **FCM/TAF/TO Funding Agreement (FA)**

TAF's Annual Report for 2022/23 was submitted to FCM including documentation of the initiatives supported by TAF with the Canada endowment and accomplishments achieved; the program audit data was provided but the audit opinion was delayed.

### **Strategic Directions**

Development of Strategic Directions for the period leading up to 2030 is underway. To start the process, senior staff took stock of TAF's internal context (strengths, weaknesses) and external landscape (opportunities, threats) and have identified some broad themes for further exploration; this will be summarized and shared to kick-start wider engagement. During the summer a range of stakeholders – including TAF Board and Committee members, thought leaders, and existing and prospective collaborators – will be consulted to gain perspectives, inspiration, and advice on how TAF can position itself for maximum impact. This input will likely be complemented by some thematic research. Staff will then synthesize and float directions for further discussion with the Board and others. Preliminary insights and directions will be used to inform development of TAF's 2024 annual plan, and updated Strategic Directions will be presented for Board approval in spring 2024.

## **STAFF AND OPERATIONAL MATTERS**

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Amanda Mosca has joined the team as Manager, Electric Vehicle (EV) Charging Program. She brings a range of environmental education and project management experience and will be a great asset for strategically deploying and additional \$3 million via TAF's EV Station Fund.

The Impact Investing team and Campaigns & Communications team are both welcoming interns for three months to support their work.

TAF has proposed that TAF City with a proposal to enter into an overarching agreement governing the mutual exchange of data in support of our shared climate objectives. We believe such an arrangement will ensure that both parties have access to the reliable, accurate and up-to-date information needed to design and implement effective climate solutions.

Thank you to all who responded to the 2023 TAF EDI Survey; response rates were strong at 63% from Board and Committee members and 96.5% from staff. The results are being analyzed and compiled and insights will be shared with relevant staff, Board and Committee members in the coming weeks. A public-facing report will be produced later this year.

## STRATEGIC PROGRAMS

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### **Accelerating Retrofits (including TAF's MURB Retrofit Accelerator)**

TAF submitted an application to NRCan's [Deep Retrofit Accelerator Initiative](#) for three years of operational funding and are hopeful that it will be positively received; decisions are expected early fall.

We successfully completed the first commercial installation of Mitsubishi's Climaventa air-to-water heat pump system at the French Quarter Shared Facilities condominium. This technology has great potential, offering a relatively inexpensive, non-invasive approach to decarbonizing existing hydronic heating systems. The condo hosted a celebration of the project that was attended by TAF, residents, project participants, industry experts, and media; Toronto Star profiled the project: [How a downtown Toronto condo defied the odds to save energy and money](#).

TAF was well-represented at Retrofit Conference Canada, which has become the premier Canadian conference for building owners and industry professionals working on retrofits. TAF's Kaitlin Carroll and Anna Kazmierska from Toronto Community Housing gave an excellent presentation on [community housing retrofits that combine climate action and social equity goals](#), while Keith Burrows helped facilitate an industry exchange roundtable that discussed the Canadian landscape of deep retrofit initiatives and programs.

### **Electrification of Transportation**

TAF's [EV Station Fund](#) which supports installation of EV charging infrastructure across the GTHA is being re-launched with the second tranche of funding -- \$3 million -- from Natural Resources Canada's Zero Emissions Vehicle Infrastructure Program (ZEVIP); the initial \$2 million is fully committed. EV Station Fund provides rebates for up to 50% of the cost of purchasing and installing the charging stations. We will be prioritizing funding for installation in multi-unit residential buildings (MURB) and public spaces, including on-street locations. For MURBs, further preference will be given to locations where multiple "ride-hailing" drivers reside, such as taxi, Uber, and Lyft drivers. These high-mileage drivers can benefit from greater fuel savings and shorter payback periods when transitioning to EVs, and the high visibility of electric ride-hailing vehicles helps to normalize and popularize the use of EVs for the broader population.

Funding to enable comprehensive EV-ready retrofits in existing MURBs is critical to achieving national EV adoption and climate targets, and to ensuring that the one third of Canadians who live in condo and apartment buildings can participate fully in Canada's forthcoming EV transition. Leveraging a BC program, TAF will be calling for establishment of a new, multi-year funding stream in the next federal Budget. A key focus will be demonstrating the need and demand for such funding among building owners, managers, and residents; industry stakeholders; civil society groups; and other influential stakeholders; this mirrors TAF's [successful campaign](#) for the Retrofit Accelerator fund.

## **Electricity Systems**

With the goal of avoiding expansion of natural gas electricity generation and the associated emissions, TAF has continued to engage with municipalities across the GTHA, providing information on alternatives that can assist Councils in making informed decisions on whether to endorse gas plant expansion projects. In addition, TAF has encouraged cities to advocate for a federal Clean Electricity Regulation that will ensure net-zero electricity by 2035. Engagement focused on electricity decarbonization continues at the provincial level including submission of comments on the IESO's Pathways to Decarbonization study and participation in the Ontario Electrification and Energy Transition Panel roundtables.

Research and stakeholder engagement has now been completed to inform development of our planned Distributed Energy Resource demonstration initiative, including active engagement to coordinate efforts with utilities, municipalities, and private sector players. Program design and fundraising will be initiated this summer, with implementation in 2024.

## **Climate Policy**

Work is continuing with cities across the GTHA to support the creation and refinement of Green Development Standards (GDS), including advising Caledon and Mississauga whose GDSs are expected later this year. TAF-supported research led to inclusion of an embodied carbon emission cap in Toronto Green Standard - Tier 2, setting an important precedent for other cities and national building standards.

TAF is also advising cities on development of energy retrofit programs; for instance, the zero-interest home retrofit loan program recently adopted by Burlington. To step up the pace and scale of retrofits of existing buildings we are advocating for emission performance standards/requirements, including undertaking policy research and engagement with municipalities, buildings and retrofit sectors, and community stakeholders to identify best practices for policy design and build support for by-law their development and adoption.

## **Research & Innovation**

Research and quantification support has been undertaken on a range of internal projects and programs including: identifying strategic charging locations in multi-family buildings to inform TAF's EV Station Fund program, analyzing rebates needed for a multi-family EV charger rebate program, a jurisdictional scan of net zero electricity initiatives and distributed energy resources, assessment of the potential carbon savings of two investment opportunities, and quantifying the carbon impacts of the most recent grant applications.

The Research & Innovation team has also supported the City of Toronto's analysis of the TGS voluntary tiers, specifically quantification of the carbon impacts to date of the higher tiers, and the City's analysis of the total cost of ownership for electric vehicles. We attended the Emerging Mobility Conference at the University of Toronto to present on and discuss the carbon impacts of the transportation sector across the GTHA region.

The preparation for our annual carbon emission inventory has started including gathering and analysis of utility (gas, electricity) and fuel sales data from across the GTHA.

### **Communications & Campaigns**

Recent TAF blogs provided an urban climate perspective on Toronto's [mayoral by-election](#), the IESO's [new contracts for gas plant expansions](#) in the GTHA, and how [heat pump bulk purchasing](#) can help speed up heat pump adoption.

We are re-launching EV Station Fund, promoting our first-ever co-investment with LC3 centres, and developing a campaign to secure national funding for EV-ready MURBs.

Recent media coverage featuring TAF experts includes: [CBC on EV charging](#) in MURBs, [National Observer on building policy](#), Toronto Star on a [heat pump retrofit success](#), [Burlington Today on retrofit financing](#) and [more can be found on our website here](#).

### **Impact Investing**

TAF is actively engaged with several large banks regarding retrofit financing as they look to deploy capital in this space and recognize TAF's experience and expertise. Predictably there is interest in understanding the risks associated with retrofits, the role of retrofit accelerators like TAF's, and the potential for co-investment. Work is also underway with one of the major vehicle-for-hire companies to explore options for financing the premium cost of purchasing an EV over internal combustion engine vehicle. Financial innovation is needed to reduce the barriers for adoption of EVs in this sector which will spark demand for public fast charging investments, provide more public exposure to EVs and accelerate the adoption of EVs overall.

Diversification of the Direct Investment portfolio is a strategic focus for the Direct Investment Committee with the aim of determining how to best build out and focus on investment opportunities in the coming years as we increase the allocation investments from \$10M to \$30M in this asset class.

Although we are not amenable to opening up the agreement with Efficiency Capital (EC), the Direct Investment Committee is willing to consider providing subordinated debt financing beyond the fully subscribed facility on a project-by-project basis and on the same terms, recognizing EC has challenges associated with the warehouse facility. Due diligence is underway on one such project. EC has secured (but not yet closed) significant capital financing from the Canada Infrastructure Bank (and other investors), has established collaborations with three other LC3 centres, and continues to build profile in the market which bodes well for their growth.

Having determined that one retrofit investment has underpaid amounts owed under the ESPA contract over a number of years and having been unsuccessful in securing the counterparty's attention to this, we have engaged counsel to pursue an arbitration as

set out under the terms of the agreement in order to protect our contractual rights and responsibility to EC1.

Several investment opportunities are being explored although we are seeing a delay in some moving forward with due diligence as they seek to find a lead investor.

### **Low Carbon Cities Canada (LC3)**

The LC3 network gathered in Montreal in May for a two-day summit, focused on sharing experiences and insights, and exploring opportunities for collaboration. Interest in collaborating on direct investing is very high, especially now that we have the experience of four centres – Alberta EcoTrust (Calgary/Edmonton), Fonds Climat du Grand Montreal and TAF – working together and advancing an investment. LC3 took the opportunity of the Montreal 2023 Climate Summit immediately following to announce philanthropic investment totalling \$12 million from the McConnell Foundation and Trottier Family Foundation to the accelerate the implementation of innovative projects including support for climate solutions that advance social equity and/or reconciliation with Indigenous peoples, a new program to decarbonize multi-residential buildings in Montréal’s metropolitan community, and accelerating building retrofits in the Greater Toronto and Hamilton Area.

### **Grants, including summary of completed Grants**

A summary of recently completed grants is provided below.

#### **Ontario Home Builders’ Association – Multi-Family Air Tightness Testing Pilot** \$170,000 over 12 months, approved in February 2020

The objective of this project was to develop and implement a standardized approach for testing the airtightness of multi-unit buildings and increase the industry’s capacity for conducting these tests to reduce building emissions. The project team collaborated with two developers – Tridel and Great Gulf – and conducted guarded floor airtightness testing in two of their buildings in Toronto. The testing explored two different methodologies and compared the cost and complexity of each method. The results of the testing demonstrated that while the testing methodology is uniform, it will need to be adjusted to account for the unique configurations of each building. Lessons learned were shared with stakeholders representing the City of Toronto, industry, and academia. A case study and manual outlining best practices for conducting airtightness tests will be released soon. To advance this objective the project team has explored collaboration with a few academic institutions for developing a training program for the industry. The consultations facilitated through this project have resulted in the project team collaborating with Enbridge for developing and launching their airtightness testing program in 2023.

## **Future Majority - Youth Organizing for Green Development Standards in Mississauga**

\$92,399 over 15 months, approved in July 2021

This grant supported Future Majority in recruiting and training youth volunteers for engaging Mississauga's municipal staff and Councillors to encourage adoption of strong green development standards (GDS). The project built public and political support for GDS by organizing briefing meetings for volunteers, collecting over 1,200 signatures on a petition, meeting with City Councillors, and engaging city residents through phone banking. The project team also leveraged the support of local community groups in the campaign. A delegation of 40 youth volunteers participated in the Council meeting held on March 22, with four delegates highlighting the importance and benefits of GDS. Mississauga's Council endorsed a motion to reaffirm and strengthen the City's commitment to climate action. Council is expected to vote on GDS later this year and will examine new interim 2030 targets to help reach net zero by or before 2050 in line with the demands presented by Future Majority's volunteers. The project team's collaboration with TAF's policy team and their volunteers' engagement with Councillors on this file has demonstrated the impact of youth climate action. Despite the challenges presented by Bill-23 and the protracted nature of the GDS process, Future Majority and their volunteers have helped advance the conversation on GDS in Mississauga, and the City of Mississauga's [press release](#) acknowledged their contribution as the City endorsed a motion to reaffirm its commitment to climate action.

## **Elexicon Group Inc. – Whitby Geoxchange District Energy Design**

\$200,000 over 18 months, approved in November 2022 (Fully rescinded in April 2023)

The project's original objective was to design a district energy system for Whitby's new sports complex and up to 19 new buildings adjacent to the complex. This technology system was identified by the grantee and the Town of Whitby as a cost effective and low carbon heating and cooling solution. A critical step in designing the system was the participation of local developers and estimating future energy demand. However, the Town of Whitby and Elexicon were unable to secure commitments from the developers who cited challenges such as incomplete permitting and lack of data on end users at this stage. As a result, the Town of Whitby and Elexicon made the decision to move forward with a geoxchange system for the sports complex that would not be connected to any new developments in the future. As the project's changed scope did not meet the scale or innovation goals that formed the basis of the original project approval, the grant was rescinded.

## **CONTACT**

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**SIGNATURE**

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