

Draft 2024 Consolidated Operating Budget

Date: November 7, 2023
To: Board of Directors of the Toronto Atmospheric Fund
From: Director of Finance

SUMMARY

TAF's 2024 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 2024 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. Expenditures budgeted for 2024 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 2024 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 2024 and will be crafted in keeping with the approved 2024 Operating Budget.

RECOMMENDATIONS

The Director of Finance recommends that the Board of Directors of the Toronto Atmospheric Fund approve the 2024 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 2023 Consolidated Operating Budget was approved by the Board at its meeting November 3, 2022. (<https://secure.toronto.ca/council/agenda-item.do?item=2022.TA20.2>)

COMMENTS

The proposed 2024 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 \$11.4 million (Line 7) and Expenses of \$11.4 million (Line 26) with a net zero balance. This is 22% increase from 2023 driven mainly by a doubling of external revenues.
- The 2023 year-end NAV is projected to be approximately \$90 million (\$88.7 million in 2022) which has significant bearing on investment returns which is the key portion of the projected revenues. Projected realized and un-realized gains from TAF's marketable securities portfolio totalling \$4.4 million (Line 2) accounts for 39% of revenues (down from 55% in 2023) and is based on a long-term annual return of 5.5% as advised by the Investment Committee; returns from fixed income will be reduced as funds are advanced into Direct Investments.
- Direct Investment revenues of \$1.4 million (Line 3) are based on TAF's current book of investments (including ESPAs, loans and other instruments) including projected income from approximately five new transactions in the year (three completed, two pending) and advances to seven existing investees; these investments are funded from re-deploying capital from marketable securities in the portfolio. During the year the Ontario and Canada endowments participation in new investments increased within the prescribed limits of the endowment agreements.
- External funding of \$5.1 million is budgeted (Line 4), which is 103% higher than 2023. This represents funding committed from governments and foundations towards TAF Retrofit Accelerator operations, specific retrofits, and the EV Station Fund rebates and operating costs. Funding from multi-year agreements is 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, which will be presented as variances.
- The contribution from the Government of Canada included a \$2 million 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 2022 was \$1.283 million and it is uncertain whether there will be a draw in 2023. A \$250,000 draw has been budgeted to support operating expenses in 2024, which will only be used if needed. Similarly, a draw from the Toronto Stabilization Fund will only be used if necessary.
- Total Program Expenses (excluding Amortization) are budgeted at \$9.5 million and make up 83% of total proposed expenditures (Line 25); this is an 30% increase from 2023 due to the availability of external funding. Of this, the non-labour program expenses of \$4.5 million are funded from endowment proceeds (Line 10) and \$5

million from external funding (Line 11). Breaking out the source of funds for expenses helps ensure that external funds are only spent if raised.

- The Grants budget (Line 8) of \$1.36 million meets the target of 20% of endowment revenue, although less than the 2023 allocation of 23%. 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.
- Salaries and Benefits for Program roles (Line 16) and Administration (Line 21) total \$3.6 million and \$903 thousand respectively. This represents a 44% increase from 2023 driven by two main factors: (1) completion of the two-phase salary adjustment (based on the Compensation Study undertaken in 2022) with 3% adjustment for cost-of-living, and (2) six new roles (three fully- and three half-funded by external revenues related to Retrofit Accelerator). Overall, 68% of staffing costs are covered by endowment proceeds and the balance by external revenues.
- In keeping with not-for-profit best practice and compliance with the Ontario and Canada agreements, TAF's endowment-funded 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 endowment operating budget (Line 25). In 2024, the endowment administrative costs are 17% of endowment spending (revenue).
- Amortization of \$643,000 (Line 17) 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 policy -- 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). TAF's Board established a Payout policy of 5 – 6 percent of the NAV based on a four-year rolling average. Actual 2022 payout was 4.8% with a four-year moving average of 5.1%. The 2023 payout is estimated at 4.5% with a four-year average payout of 5%. The projected 2024 payout is 6.3% percent and the estimated four-year moving average based upon forecast of expenses is 5.4%.
- 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 2023 and 2024 year-ends are not contemplated at this point.

CONTACT

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SIGNATURE

Robert Wotten
Director of Finance

ATTACHMENTS

1. Draft 2024 Consolidated Operating Budget