

2027 Consolidated Operating Budget

Date: October 20, 2026
To: Board of Directors of the Toronto Atmospheric Fund
From: Director of Finance

SUMMARY

TAF's 2027 Operating Budget is presented for Board consideration and approval. Budgeted revenue is informed by the investment strategy and asset mix recommended by the Investment Committee which includes projected returns from marketable securities, expected returns from TAF's direct investment portfolio, projected returns on new investments, and committed external funding. Budgeted expenditures are aligned with the projected revenues, both proceeds and external funding, and are allocated to activities that advance TAF's mandate while adhering to the minimum grant and maximum administrative expense requirements and maintaining the nominal value of the Toronto, Ontario, and Canada endowments.

The 2027 Annual Plan, which will detail the objectives and activities for advancing climate solutions across the Greater Toronto and Hamilton Area (GTHA), will be developed within the approved budget framework and presented to the Board at its first meeting of 2027.

RECOMMENDATIONS

The Director of Finance recommends that the Board of Directors of the Toronto Atmospheric Fund:

1. Approve the 2027 Consolidated Operating Budget as presented in Attachment 1.
2. Direct the Director, Finance, Toronto Atmospheric Fund to submit the 2027 Consolidated Operating Budget to the City Financial Planning Division as part of the 2027 Budget Process.

FINANCIAL IMPACT

There is no financial impact to the City resulting from the adoption of the recommendations in this report. A draft budget has been submitted to the City of Toronto for consideration and approval reflecting a balanced and self-financed budget, with "net zero" impact on the City's Operating and Capital budgets.

DECISION HISTORY

On July 13, 2026, the Board received the Investment Committee's asset mix review and updated long-term return expectations, which inform the revenue assumptions used in the proposed 2027 budget (<https://secure.toronto.ca/council/agenda-item.do?item=2026.TA15.2>).

At its April 28, 2026, meeting, the Board approved TAF's 2025 Audited Financial Statements, including year-end transfers to the stabilization funds associated with each of TAF's three endowments (<https://secure.toronto.ca/council/agenda-item.do?item=2026.TA14.16>).

TAF's 2026 Consolidated Operating Budget was approved by the Board at its meeting November 24, 2025 (<https://secure.toronto.ca/council/agenda-item.do?item=2025.TA12.7>).

COMMENTS

The proposed 2027 Consolidated Operating Budget (the Budget) is presented for Board approval as set out in Attachment 1. The Budget has been developed to support delivery of TAF's mandate while maintaining prudent stewardship of its endowments. Key features are highlighted below.

Funding and Revenue

- In the current economic climate of uncertainty TAF has adopted very cautious revenue estimates since all three revenue types budgeted are impacted by the overall economic conditions.
- The proposed budget includes revenues of \$11.1 million (Line 8) and Expenses of \$11.1 million (Line 27) with a net zero balance. This is \$644 thousand or 6% lower than 2026 due to a variety of reasons.
- Marketable Securities (Line 2) are budgeted at \$4.5 million (\$4.6M in 2026) which reflects estimated redemptions for operations and transfers to Direct Investments. For context and based upon estimated portfolio value at 2026 year-end, returns on the marketable securities portfolio was 5.0%.
- Direct Investment (Line 3) was budgeted at \$1.1 million (\$1.7million in 2026). This reduction reflects that 2026 includes a one-time unbudgeted gain of \$629K on Noveon Magnetics arising from a recapitalization of TAF's investee. As TAF does not record its investments at fair market value any unrealized gains that occur add volatility to annual results and when compared to budget. TAF is also unable to budget any gains unless they are known prior to the completion of the budget. In addition several ESPA contracts are maturing in 2026 and 2027 resulting in a reduction in revenue from this source of \$268K. TAF has been able to mitigate this reduction through actively investing in revenue generating direct investments like the

Jule revolving credit facility. TAF intends to transfer approximately \$4M into new Direct Investments next year but no revenue from these investments has been budgeted since the revenue flows from this asset class are unpredictable.

- Redemptions to fund the abovementioned Direct Investments will result in realized gains of which, conservatively, \$771 thousand (line 6) is being transferred to revenue (2025 actual transfer was \$5.5 million). The historical realized gains have accumulated in remeasurement gains and losses and are transferred to the operating budget upon becoming realized gains.
- External revenues (Line 4) are budgeted at \$4.3 million (\$4.9M in 2026). TAF generally only budgets confirmed external funding in order to prudently match expenses with revenue and not provoke negative variances and challenging internal management of resources. With two major contributions ending March 31, 2027 – the Deep Retrofit Accelerator Initiative (DRAI) program which supports TAF's Retrofit Accelerator and the Zero Emissions Vehicle Infrastructure (ZEVIP) program which supports the EV-Ready MURB pilot -- revenue has been projected conservatively. However, since the federal government recently announced extension of DRAI, there have been strong indications that program continuity is a priority and TAF has a strong reputation for results, approximately one quarter of the previous annual amount has been projected. Given challenges in securing participation in the EV-Ready pilot, a very conservative revenue assumption has been made, although there are some significant potential participants in the wings. If additional funding is secured for these programs, and other current and prospective requests for external funding are successful, the positive variance will be noted via quarterly unaudited reports.
- The Government of Canada Operating fund (line 7) had a balance of \$633 thousand at the end of 2026. It is expected that TAF will use \$332 thousand (\$301 thousand in 2026). The original amount of \$2 million was intended to support start-up costs and provide a buffer for maintaining the nominal value of the Canada endowment.
- Use of Stabilization funds is not projected, although these internally-restricted funds are available in years where actual investment revenue is below budget. The Stabilization funds totalled \$15.5 million at the end of 2025 and there is no expectation for a draw in 2026.

Operating Expenses

- Total Program Expenses (excluding Amortization and Project Contributions) are budgeted at \$6.1million (\$7.1 in 2026) a 14% decrease commensurate with the external funding. Of this, non-labour program expenses of \$811 thousand (2026 \$1.12 Million) are funded from endowment proceeds (Line11) and \$424 thousand (2026 \$1.4M million) from external funding (Line 12).
- Project Contributions (Line 10) of \$2.1 million (\$1.4 million in 2026) include support provided to community partners for planning and implementing retrofits, rooftop solar and EV charging infrastructure using external revenue.

- Amortization (Line 17) has dropped to \$341 thousand (\$608 thousand in 2026) due to ESPA retrofit contracts maturing.
- Grants (Line 9) totalling \$1.4 million will be awarded, if approved by the Board; this meets the target at least 20% of endowment revenue. Grants can be rescinded by TAF if the original granting conditions have not or cannot be met, or when the recipient no longer needs the grant; such situations may create budget variances.
- Salaries and Benefits dedicated to Programs (Line 16) and Administration (Line 21) total \$4.9 million (\$4.6 million in 2026) and \$933 thousand (\$989 thousand in 2026), respectively. This represents a 3% increase from 2026 driven by cost-of-living and in-band adjustments totalling 3%. Overall, 70% 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 funding 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-funded operating budget (Line 25). In 2027, the endowment funded administrative costs are budgeted at 16% of endowment spending.

Payout and Capital Preservation

- In keeping with best practice for preserving endowment capital while supporting program delivery, TAF has maintained the payout at 5 – 6 percent of net asset value (NAV) on a four-year rolling average. This ratio, which guides the expense budget, was established more than 20 years ago when TAF managed only the Toronto endowment and was based on the advice of the Investment Committee regarding revenue potential.
- The payout in the proposed 2027 budget is informed by updated long-term return expectations presented to the Board in July 2026 following the Investment Committee's review and guidance for TAF's asset mix. The primary objective remains compliance with the funding agreements and maintaining the nominal value of each endowment.

Stabilization Fund

- TAF maintains stabilization funds associated with its endowments to help manage fluctuations in investment income and reduce the impact of market volatility on annual operating capacity. When actual investment returns exceed budget assumptions, excess income may be allocated to stabilization reserves; stabilization fund balances are capped at 25% of the associated endowment's net asset value. Conversely, stabilization funds can be drawn upon with Board approval when investment income falls below budget expectations to maintain mandate-related work. This approach supports stable and predictable spending while maintaining prudent stewardship of endowment assets.
- At the end of 2025 the Stabilization fund balances were \$8.7 million, \$2.4 million, and \$4.4 million for Toronto, Ontario, and Canada endowments, respectively. At this point, no drawdown of the Stabilization funds is forecast in 2026.

-

CONTACT

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

SIGNATURE

Robert Wotten
Director of Finance

ATTACHMENTS

1. 2027 Consolidated Operating Budget