

Analyst Briefing Notes

Budget Committee

(January 28, 2008)

2008 OPERATING BUDGET

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January 28, 2008

2008 OPERATING BUDGET**Executive Summary**

- The 2007 projected expenditure of \$1.835 million gross and \$0 million net meets the 2007 Approved Operating Budget of \$0 million net. The notable variances include a \$1.683 million shortfall in revenue, due to poor market performances, and an expenditure increase of \$0.153 million. The TAF Board plans to authorize a contribution from the Stabilization Fund, which stands at \$0.827 million, in order to mitigate the shortfall. The balance of the shortfall will be absorbed by TAF's assets.
 - Investment performance remains uncertain for 2008. Quarterly reports on the status of investment performance will be provided.
- The Toronto Atmospheric Fund's 3-Year Operating Budget supports its mandate to reduce local emissions of greenhouse gas emissions such as CO₂ and methane and air pollutants. The Toronto Atmospheric Fund will be focusing on developing four new program areas: (a) Solarcity; (b) Towerwise; (c) Lightsavers; and (d) Fleetwise. These programs will involve new partnerships that help to accelerate the local reductions of greenhouse gases and support the City of Toronto's development and implementation of the Climate and Clean Air Action Plan.
 - The Program's challenges include enhancing their in-house lending team to continue to implement the Council approved Investment Policy for TAF, establishing partnerships to meet the expanding interest in reducing gas emissions and attracting new funding from other orders of government and third parties.
 - Future challenges include:
 - Managing limited resources to respond to growing public interest in the area of climate change and general growing urgency of the issue.
 - Focusing program resources on key selected areas while continuing to create new ideas in the community.
 - Addressing key barriers to energy efficiency and renewable energy development.
- The 2008 Recommended Operating Budget of \$2.684 million gross is \$0.850 million or 46.3% over the 2007 Approved Operating Budget. TAF recognizes the uncertain character of the current investment market and will continue to manage revenues and expenses accordingly, while reporting to the City through the quarterly variance process.

Table 1: 2008 Recommended Budget

(In \$000s)	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Approved Budget		FY Incremental Outlook	
	2007 Approved Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget			2009	2010
	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	1,834.7	1,834.7	2,504.6	179.7	2,684.3	849.6	46.3	12.3	12.7
REVENUE	1,834.7	1,834.7	2,504.6	179.7	2,684.3	849.6	46.3	12.3	12.7
NET EXP.	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Approved Positions	4.0	4.0	4.0	2.0	6.0	2.0	50.0	0.0	0.0
TARGET			0.0	0.0					
\$ Over / (Under) Program Target			0.0	0.0					
% Over / (Under) Program Target			0.0%	0.0%					

- The 2008 Recommended Operating Budget for the Toronto Atmospheric Fund is \$2.684 million gross (\$0 million net). This is comprised of \$2.505 million gross (\$0 million net) base funding and \$0.180 million gross (\$0 net) for new/enhanced service priorities. Approval of the 2008 Recommended Budget will result in the Program's staff complement increasing from 4 to 6 approved positions.
 - The 2009 and 2010 Outlook incremental increases of \$0.015 million gross, \$0 net, in both years are due to merit and step increases.
- The 2008 Recommended Base Budget of \$2.505 million gross compared to the 2007 Approved Budget includes a gross expenditure increase of \$0.670 million or 36.5% and a net expenditure increase of \$0 million. Revenues have increased by \$0.669 million and will be raised through fundraising efforts with other orders of government and third parties and through investment income of the endowment portfolio.
- Two new positions are being recommended as new and enhanced service priorities. Funding in the amount of \$0.180 million gross and \$0 net is recommended. The two new positions include a Manager of Grants and Special Projects and an Associate Director. This will increase TAF's 2007 approved complement of 4 to 6 positions in 2008.
- To promote the objectives of the Program, a number of the 2008 initiatives include:
 - Introduction of four service areas selected to support measurable progress on key emission reduction opportunities.
 - Development of new partnerships, collaborations and external fundraising to promote inter-departmental collaborations at the City of Toronto and with community partners.
 - Support the City's climate change plan to cut greenhouse gas emissions to help combat global warming.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for Toronto Atmospheric Fund of \$2.684 million gross and \$0 million net, comprised of the following service, be approved:

<u>Service:</u>	Gross <u>(\$000s)</u>	Net <u>(\$000s)</u>
Toronto Atmospheric Fund	<u>2,684.3</u>	<u>0.0</u>
Total Program Budget	<u><u>2,684.3</u></u>	<u><u>0.0</u></u>

2. the Toronto Atmospheric Fund provide a quarterly variance report through 2008 to monitor the investment income that is being achieved from the endowment and third party fundraising activities.
3. the two new temporary positions continue to be funded conditionally upon the continued success of the fundraising activities.

Section A: 2007 Budget Variance Analysis

Table 2: 2007 Budget Variance Review

	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	2,295.6	1,834.7	1,834.7	0.0	0.0
REVENUES	2,295.6	1,834.7	1,834.7	0.0	0.0
NET EXP.	0.0	0.0	0.0	0.0	0.0
Approved Positions	4.0	4.0	4.0	0.0	0.0

Source: *Projected Actuals Based on the September 30, 2007 Variance Report.

2007 Experience

The Third Quarter Variance Report for the Toronto Atmospheric Fund projects a preliminary year-end variance \$0 million gross and \$0 million net. Notable variances include:

- Grants were overspent by \$0.176 million, Special Projects were under spent by \$0.037 million and over-expenditures of \$0.014 million in administration costs resulted in a gross over-expenditure of \$0.153 million.
- After a number of years of mounting surpluses, investment performance of the Toronto Atmospheric Fund endowment portfolio was poor during 2007. The TAF Board plans to authorize a contribution from the Stabilization Fund, which stands at \$0.827 million, in order to mitigate the shortfall. The balance of the shortfall will be absorbed by TAF's assets.

2007 Cost Containment Savings

No cost containment savings were implemented during 2007.

Impact of 2007 Operating Variance on the 2008 Recommended Budget

The investment market performance is expected to be uncertain in 2008. TAF will report quarterly on investment performance and fundraising activities.

Section B: 2008 Operating Budget Overview

3-Year Operating Budget Overview

- The Toronto Atmospheric Fund (TAF) is a granting agency providing financial support to the community and the City of Toronto to support energy efficiency and renewable energy initiatives to reduce Toronto's greenhouse gas emissions to help slow climate change. Over the next three years, TAF will seek to attract new funds to directly support targets set out in the City of Toronto's recently approved Climate Change, Clean Air and Sustainable Energy Action Plan. TAF will deliver four new programs, detailed below, by integrating grants, finance, and direct program design and management. It is anticipated that other orders of government and third party funding to enhance these programs will be secured in 2008, 2009 and 2010.
- The four new program areas are:
 - Solarcity: increasing the capacity for solar energy in Toronto to offset pollution associated with conventional fuel use and to position Toronto as a North American leader in photovoltaic and solar thermal generation.
 - Towerwise: working with a broad partnership coalition to accelerate carbon reductions in the residential sector with special emphasis on high-rise condominiums and apartment buildings.
 - Lightsavers: advancing the use of Light Emitting Diode (LED) lamps and adaptive lighting control systems primarily in parking lots and roadways, which will result in significant energy efficiency gains.
 - Fleetwise: advancing greater market acceptance and adoption of hybrid and electric vehicle applications in urban fleets.
- The 2008 Recommended Operating Budget for the Toronto Atmospheric Fund is \$2.684 million gross and \$0 million net and supports TAF's strategic objectives.
- TAF's 2008 Recommended Operating Budget will add 2 positions to the approved complement. The 2 staff were originally on contract in 2007 and are now being converted to temporary positions. The program's staffing complement will thus increase from 4 to 6 approved positions.

Challenges and Issues

The mission for the Toronto Atmospheric Fund is:

To help slow global climate change and improve local air quality by using TAF's assets and revenue to advance local initiatives that reduce Toronto's greenhouse gas emissions.

The challenges over the next three years include:

- Responding to growing public interest in the area of climate change.
- Focusing program resources on key selected areas while continuing to research for new ideas in the community.

Strategic Priorities

The 2008 Recommended Operating Budget for the Toronto Atmospheric Fund supports the following priorities outlined in Council's policy agenda:

- ***Develop a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming.***

TAF will be supporting the City's plan in cutting emissions and encouraging residents to do the same. The Toronto Atmospheric Fund will assist the City and the community by undertaking programs and providing grants to reduce emissions both of greenhouse gas and smog-causing pollutants.

- ***Implement the remaining components of the City's smog plan and develop a new, aggressive clean air action plan that will reduce smog-causing pollutants by 20% by 2012.***

The Toronto Atmospheric Fund supports opportunities to achieve significant and measurable emission reductions from initiatives such as the Plug-in Hybrid Electric Vehicle pilot project. The Toronto Atmospheric Fund also plays a lead role in developing the Toronto air emissions inventory which is a key component of the City's greenhouse gas and smog-reduction campaign. This will help in assessing the best opportunities for emission reductions city-wide.

The 2008 Recommended Operating budget supports the following priorities outlined in Council's Climate Plan:

- Support Live Green Toronto target groups and accelerate emission reductions in high-rise buildings.
- Assist the City to become the renewable Energy Capital of Canada through support of solar thermal and PV projects in the City and community.
- Support the City's sustainable transportation efforts, including the greening of the City's fleets.
- Support the greening of City operations by accelerating the use of LED lamps and adaptive lighting controls on outdoor applications such as Nathan Philips Square.
- Build partnerships for change, through collaboration with community groups, high rise associations and business improvement associations.

The Toronto Atmospheric Fund will assist the City and the community with activities to reduce emissions both of greenhouse gas and smog-causing pollutants.

Section C: 2008 Recommended Base Budget

Table 3: 2008 Recommended Base Budget

(In \$000s)	2007 Approved. Budget	2008 Recommended Base	Change 2008 Recommended Base vs. 2007 Approved Budget		FY Incremental Outlook	
	\$	\$	\$	%	2009 \$	2010 \$
GROSS EXP.	1,834.7	2,504.6	669.9	36.5	12.3	12.7
REVENUE	1,834.7	2,504.6	669.9	36.5	12.3	12.7
NET EXP.	0.0	0.0	0.0	NA	0.0	0.0
Approved Positions	4.0	4.0	0.0	0.0		
NET TARGET		0.0			0.0	0.0
\$ Over / (Under) Program Target		0.0			0.0	0.0
% Over / (Under) Program Target		0.0%			0.0%	0.0%

2008 Recommended Base Budget

The 2008 Recommended Base Budget of \$2.505 million gross and \$0 million net represents a 36.5% gross and 0% increase over the Toronto Atmospheric Funds' 2007 Approved Budget.

- The 2008 Recommended Base Budget of \$2.505 million gross compared to the 2007 Approved Budget includes a gross expenditure increase of \$0.670 million or 36.5% and a net expenditure increase of \$0 million. The 2008 Recommended Base Budget will increase the service levels offered in 2007.
- Revenues have increased by \$0.669 million. Of this amount of \$0.600 million is anticipated to be received from other orders of government and third parties.
- A reduction of \$0.180 million in contracted services for two positions that have been converted to temporary positions in 2008; identified in "New and Enhanced Services" on page 10.
- The 2008 Recommended Base Budget results in 4 approved positions. This is unchanged from the 2007 approved staff complement.

2008 Key Cost Drivers and Reduction Strategies

The additional \$0.667 million in expenditures recommended for the Program's Base Budget is required to fund merit and step increases, cost of living adjustments (COLA) and to enhance the four new program areas recommended. During 2008, the TAF Board and staff will closely monitor investment market conditions and will adjust spending accordingly, reporting back to the City through the quarterly variance process.

2009 and 2010 Outlook: Net Incremental Impact

The 2009 and 2010 Outlook includes a gross incremental impact increase of \$0.015 million; \$0 net in both years for merit and step increases.

Section D: 2008 Recommended Service Priorities

Table 4: Summary of 2008 New / Enhanced Service Priorities (In \$000s)

Priority	Description	2008 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2009	2010
		\$	\$		#	\$
	(a) Enhanced Service Priorities - Council Approved:					
	(b) Enhanced Service Priorities - Program Initiated:					
	Sub-Total Enhanced Services	0.0	0.0	0.0	0.0	0.0
	(a) New Service Priorities - Council Approved:					
	(b) New Service Priorities - Program Initiated:					
	Associate Director, Mandate Related Finance	110.7		1.0		
	Manager, Grants & Special Projects	69.0		1.0		
	Sub-Total New Service Priorities	179.7	0.0	2.0	0.0	0.0
	Total Recommended New / Enhanced Service Priorities	179.7	0.0	2.0	0.0	0.0

Recommended New Service Priorities – Program Initiated:

Associate Director, Mandate Related Finance (\$0.111 million gross, \$0 million net)

It is recommended that one new temporary staff position be approved to continue to implement TAF's Council approved Investment Policy. The new position will originally concentrate on implementing innovative financing mechanisms in the high rise market, which includes both new and existing condominiums and apartment buildings, by addressing their emissions and upgrading and transforming the facilities to greater energy efficient units. This was originally a contract position in 2007. The continuation of this position is conditional upon successful fundraising activities.

Manager, Grants & Special Projects (\$0.069 million gross, \$0 million net)

It is recommended that one new temporary staff position be approved to assist in the development of the four new programs proposed, which consist of Solarcity; Towerwise; Lightsavers and Fleetwise. This was originally a contract position that is now being converted to a temporary position.

Section E: Issues for Discussion**2008 Operating Budget Issues*****Two New Positions***

TAF has been primarily a granting agency providing financial support to the community and City of Toronto projects, generally supporting energy efficiency and renewable energy initiatives. TAF is now seeking to focus on integrating its various activities, including grants, financing, and program design and implementation within four new program areas: Solarcity; Towerwise; Lightsavers; and Fleetwise. The intent is to maximize impact with more strategic activities. Funding for these programs will be supported from investment capital and through fundraising.

Two new temporary positions are being recommended to support the four new program areas and to continue to implement TAF's investment policy. The Toronto Atmospheric Fund will be involved in a variety of fundraising campaigns to generate funding to support these two new positions and provide increased service levels for the new program areas and the enhanced investment policy. The continuation of these positions beyond 2008 is conditional upon successful fundraising efforts.

Poor Market Performances

The Toronto Atmospheric Fund has identified a \$1.683 million reduction in revenues due to poor market performance in 2007. The loss is due to a variety of factors, including the sub-prime mortgage crisis that occurred in the United States and the improvement in the value of the Canadian dollar relative to the U.S dollar. TAF recognizes that investment performance in 2008 is very uncertain and will be providing quarterly variance reports to the City to monitor its investment income and revenue generated from fundraising.

Appendix 1

Summary of Recommended Base Budget Changes From 2007 Approved Budget

(In \$000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		\$	\$	\$	\$	\$
2007 Council Approved Operating Budget	4.0	1,834.7	1,834.7	0.0	0.0	0.0
2007 Approved Operating Budget	4.0	1,834.7	1,834.7	0.0	0.0	0.0
Prior year impacts						
Zero base items						
Economic factors		35.2	35.2	0.0	12.3	12.7
Adjusted Base Budget	4.0	1,869.9	1,869.9	0.0	12.3	12.7
Other base changes		634.7	34.7	600.0		
Base revenue changes			600.0	(600.0)		
Recommended Service Level Adjustments:						
Service efficiencies						
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	0.0	634.7	634.7	0.0	0.0	0.0
2008 Recommended Base Budget	4.0	2,504.6	2,504.6	0.0	12.3	12.7
2008 Program Operating Target	4.0	1,834.7	1,834.7	0.0	0.0	0.0
% Over (Under) Program Target				0.0%	0.0%	0.0%
% Over (Under) 2007 Appvd. Budget				0.0%	0.0%	0.0%

Appendix 3

Summary of 2008 Recommended New / Enhanced Service Priorities