

Analyst Briefing Notes

Budget Committee

(February 10, 2009)

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PART I: 2009 OPERATING BUDGET**Executive Summary**

- Toronto Atmospheric Fund (TAF) provides financial and direct program support to the community and the City of Toronto to slow global climate change and improve local air quality. TAF uses earnings generated from its \$23 million endowment capital and funds from outside agencies to provide grants to non-profit agencies that are advancing innovative climate actions. TAF also designs and implements early-stage climate reduction programs that are later delivered to other agencies for scaling-up. The four programs that TAF is deploying to help the City of Toronto in climate change are:
 - Solarcity: Building local solar generation capacity
 - Towerwise: Improving energy efficiency in high-rise homes
 - Lightsavers: Advancing low carbon lighting
 - Fleetwise: Accelerating hybrid and electric vehicle solutions
- The challenges and opportunities over the next three years facing TAF include:
 - Uncertain market conditions which are having an adverse effect on TAF's capacity to maintain support for grants, program and special project funding.
 - Intense local and international interest in TAF's direct programming has created fast-paced expansion of the initiatives posing both a managerial challenge and an opportunity to deepen impacts and attract external funding.
- TAF has established the following service objectives and priority actions to address the challenges and opportunities outlined above:
 - TAF will continue to develop new partnerships and collaborations at the City of Toronto and with community partners.
 - TAF will continue to make its endowment capital available for programs and will continue to seek methods to diversify revenue streams through external fundraising.
 - TAF will continue to provide four program areas (Solarcity, Towerwise, Lightsavers and Fleetwise) to involve new partnerships and help accelerate the local reductions of greenhouse gases.
- For 2008, TAF is projecting a year-end net expenditure of \$1.776 million gross and \$0 million net which meets the 2008 Approved Operating Budget of \$0 million net. However, as a result of reduced investment income, grant support in 2008 has been reduced to mitigate the revenue loss. In addition, maintenance of core program costs has resulted in the erosion of the asset fund.

Table 1: 2009 Recommended Budget

(In \$000s)	2008		2009 Recomm'd Operating Budget			Change - 2009 Recommended Operating Budget v. 2008 Appvd. Budget	FY Incremental Outlook		
	2008Appvd. Budget	2008 Projected Actual	2009 Base	2009 New/ Enhanced	2009 Operating Budget		2010	2011	
	\$	\$	\$	\$	\$		\$	\$	
GROSS EXP.	2,684.3	1,776.0	2,196.0		2,196.0	(488.3)	(18.2)	17.3	17.8
REVENUE	2,684.3	1,776.0	2,196.0		2,196.0	(488.3)	(18.2)	17.3	17.8
NET EXP.	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0
Approved Positions	6.0	6.0	6.0		6.0	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 2009 Recommended Operating Budget for Toronto Atmospheric Fund (TAF) is \$2.196 million gross and \$0 million net. Approval of the 2009 Recommended Operating Budget will result in the same staff complement level of 6 positions as in 2008.
 - The 2010 and 2011 Outlook maintains the projected 2009 level of services while managing non-labour economic pressures and merit/step increments which will be off-set by earnings generated from the investment income assuming that market performance will remain the same as in 2009. TAF will monitor its investment performance and if any changes to the level of service will be required as a result of change in the market performance, TAF will provide updated information on the 2010 and 2011 Outlook.
- The 2009 Recommended Base Budget provides funding for the following key cost drivers:
 - Annualization of the 2008 cost-of-living adjustment (COLA) and merit/step increases of \$0.044 million.
 - Extended part-time hours resulting from increased accounting responsibilities will increase salary costs by \$0.016 million.
 - In order to attract new candidates for the position of Executive Director a salary adjustment results in an increase of \$0.011 million.
 - Salary increases not accounted for in prior budgets require \$0.017 million for retroactive salary adjustments.

As a result of reduced income of \$0.595 generated from the endowment fund due to poor market performance, these cost drivers are defrayed by revenue transferred from the capital fund of \$0.907 million and fundraising activities.

- The 2009 Recommended Operating Budget provides funding of \$1.475 million to maintain and provide a broad range of services and activities by TAF to support the climate and clean air action plans that advance the Mayor's Mandate and Council's policy agenda. These include:
 - **Climate Change Mitigation:** TAF will be supporting the City's plan in cutting emissions and encouraging residents to do the same and to assist the City and the community by undertaking programs and providing grants to reduce greenhouse gas emissions.
 - **Reduction of Air Pollution:** TAF will help implement the City's Climate Change, Clean Air and Sustainable Energy Action Plan that will reduce smog-causing pollutants by 20% by 2012 by providing grants and new program designs.

TAF will provide a quarterly variance report to monitor the status of the investment account.

Recommendations

The City Manager and Acting Chief Financial Officer recommend that:

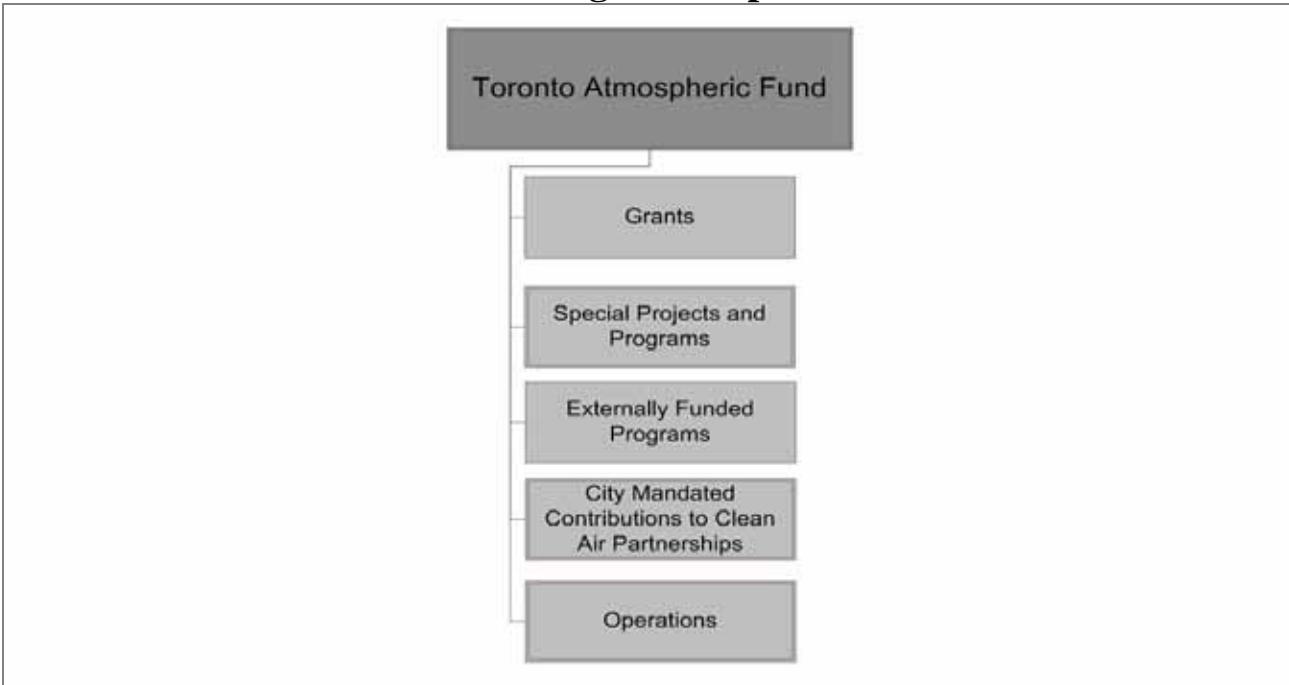
1. Council approve the 2009 Recommended Operating Budget for Toronto Atmospheric Fund of \$2.196 million gross and \$0 million net, comprised of the following service:

<u>Service:</u>	<u>Gross</u> (\$000s)	<u>Net</u> (\$000s)
Toronto Atmospheric Fund	<u>2,196.0</u>	<u>0.0</u>
Total Program Budget	<u>2,196.0</u>	<u>0.0</u>

2. the Toronto Atmospheric Fund provide a quarterly variance report through 2009 to monitor the investment income that is being achieved from the endowment and third party fundraising activities.

PART II: 3-YEAR SERVICE OVERVIEW AND PLAN

- The Toronto Atmospheric Fund (TAF) helps slow global climate change and improve local air quality by using its \$23 million base endowment to advance local initiatives that reduce Toronto's greenhouse gas emissions. Over the next three years, TAF will provide grants to non-profit agencies and will seek to attract new funds from outside agencies to directly support targets set out in the City of Toronto's Climate Change, Clean Air and Sustainable Energy Action Plan. TAF will also continue to design and implement climate reduction programs that are later delivered to other agencies for scaling-up. These programs help Toronto become much more effective in rapidly deploying technologies and ideas to help address climate change.
- The four program areas that help Toronto in climate change 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 America 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 adaptation of hybrid and electric vehicle applications in urban fleets.

Program Map

Service Challenges and Opportunities

TAF supports energy efficiency and renewable energy initiatives to reduce Toronto's greenhouse gas emissions by providing financial and direct program assistance to the City and the community. The provision of this support is vital to the reduction of global warming. TAF faces difficulty in achieving its service mandate because of unpredictable market conditions that have an adverse effect on TAF's capacity to maintain support for grants, program and special project funding.

Over the next three years, TAF is facing the challenges driven by the following service drivers:

- **Approved Strategic Plans**

TAF continues to implement the commitments outlined within its strategic plans, however the constrained financial environment can at times shift service priorities. TAF's commitment is to use earnings generated from its endowment capital and to attract new funds to directly support targets set out in the City of Toronto's Climate Change, Clean Air and Sustainable Energy Action Plan.

- **Service Demands**

Increased local and international interest in TAF's direct programming creates a pressure on management to increase time and effort to attract external funding to support the Climate and Clean Air Action Plans.

- **Human Resources**

TAF is undergoing an organizational leadership change which temporarily reduces TAF's program management and fundraising capacity.

Service Objectives

Over the next 3 years TAF is focusing on maintaining its current activities and continuing to pursue TAF's mission of helping slow global climate change and improving local air quality.

TAF has established objective targets for 2009 and beyond that will address the challenges and opportunities outlined above:

- ***To support the implementation of a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming***

The Toronto Atmospheric Fund will continue to assist in advancing the City of Toronto's Climate Change, Clean Air and Sustainable Energy Action Plan. TAF supports opportunities to achieve significant and measurable emission reductions from initiatives identified in the Toronto Air Emissions Inventory, which is a key component of the City's greenhouse gas smog-reduction campaign.

- ***To manage resources to respond to growing public interest in the area of climate change and the growing urgency of the issue***

TAF will continue in making its endowment capital available for modelling unique financial solutions that break down financial obstacles to climate change development. In addition, while TAF endowment funds must be spent only on City of Toronto initiatives, TAF will continue to attract external funds that assist in building regional programs and take advantage of regional synergies to share resources and best practices in a way that accelerates local emission reduction results.

- ***To maintain external fundraising target comparable to the 2008 to retain service levels provided through program areas that help the City of Toronto address climate change***

In 2008, TAF exceeded its external funding target by 30%. TAF have set a target for external fundraising in 2009, 2010 and 2011 that is comparable to this actual performance in 2008, excluding the one time Portlands Energy Centre contribution of \$0.400 million.

Priority Actions

- The 2009 Recommended Operating Budget provides \$1.475 million in gross expenditures to fund a broad range of services and activities that advance the Mayor's Mandate and Council's policy agenda.

➤ **Climate Change Mitigation and Clean Air**

TAF will continue to support Live Green Toronto target groups and accelerate emission reductions in high-rise buildings by providing financing, collaboration and networking to create awareness and incentives for retrofits and high-efficiency new constructions.

TAF will continue to support the City's sustainable transportation efforts, including the greening of the City's fleets. TAF will provide grants, green procurement, policy advocacy and market research to advance the use of hybrid and electric vehicles.

TAF will continue to build partnerships for climate change, through collaboration with community groups, high rise associations and business improvement associations.

TAF will continue to support the greening of City operations by accelerating the use of LED lamps and adaptive lighting controls on outdoor applications in Toronto and across the GTA. TAF will provide grants, green procurement and market research to improve market awareness and acceptance of these new lighting solutions.

➤ **Sustainable Energy Plan**

TAF will continue to assist the City to become the renewable Energy Capital of Canada through support for solar thermal and PV projects in the City and community. TAF will assist the City in creating policies and procedures to encourage more solar energy generation City-wide.

- The 2009 Recommended Budget of \$1.475 million provides funding for:
 - Grants of \$0.675 million.
 - Special Projects and Programs of \$0.350 million.
 - Externally Funded Programs of \$0.350 million.
 - City mandated contribution to Clean Air Partnership (CAP) of \$0.100 million.
- TAF allocates grants and special projects to specific services or activities throughout the year based on the type of applications received and approved within the budget year. As the above priority actions are not mutually exclusive, approximately 100% of the budget is allocated to Climate Change Mitigation and Clean Air and 50% to Sustainable Energy Plan.

PART III: 2008 BUDGET VARIANCE ANALYSIS

Table 2: 2008 Budget Variance Review

(In \$000s)	2007 Actuals	2008 Approved Budget	2008 Projected Actuals*	2008 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
GROSS EXP.	2,099.0	2,684.3	1,776.0	(908.3)	(33.8)
REVENUES	2,099.0	2,684.3	1,776.0	(908.3)	(33.8)
NET EXP.	0.0	0.0	0.0	0.0	0.0
Approved Positions	4.0	6.0	6.0	0.0	0.0

Source: Projected Actuals Based on the September 30, 2008.

2008 Experience

TAF was established to address climate change in Toronto. TAF's budget is not funded by the City's tax base. Funding is provided from revenues from TAF's endowment fund dedicated to further TAF's operating priorities. Expenditures are based on anticipated investment earnings on a four-year rolling average basis. As such, the operating budgets for TAF are estimated at net \$0 annually.

The projected year-end net expenditures are anticipated to be \$0. Budgeted revenue of \$2.683 million will be under-achieved by approximately \$0.908 million. This is the result of poor market performance.

The projected year-end revenue includes revenue generated from TAF's endowment fund which will be under-achieved by approximately \$3.978 million. To mitigate this revenue shortfall, the TAF Board authorized a contribution of \$0.414 million from the Stabilization Fund and \$2.992 is transferred from the capital fund.

As a result, gross expenditures of \$2.683 million will be reduced to meet projected revenue. The reductions will include funding for grants and direct program spending.

Impact of 2008 Operating Variance on the 2009 Recommended Budget

The investment market performance is expected to remain uncertain in 2009. TAF will continue to monitor its investment performance and will provide quarterly reports to the Budget Committee.

PART IV: 2009 RECOMMENDED BASE BUDGET

Table 3: 2009 Recommended Base Budget

(In \$000s)	2008 Appvd. Budget	2009 Recommended Base	Change 2009 Recommended Base v. 2008 Appvd. Budget		FY Incremental Outlook	
	\$	\$	\$	%	\$	\$
GROSS EXP.	2,684.0	2,196.0	(488.0)	(18.2)	17.3	17.8
REVENUE	2,684.0	2,196.0	(488.0)	(18.2)	17.3	17.8
NET EXP.	0.0	0.0	0.0	NA	0.0	0.0
Approved Positions	6.0	6.0	0.0	0.0		
NET TARGET		0.0				
\$ Over / (Under) Program Target		0.0				
% Over / (Under) Program Target		0.0%				

2009 Recommended Base Budget

The 2009 Recommended Operating Budget of \$2.196 million gross and \$0 million net represents a decrease of \$0.488 million or 18.2% in gross expenditures and an equivalent decrease in revenues to maintain a net budget expenditure of \$0 million or 0% over the 2008 Approved Budget.

- Recommended gross expenditures for 2009 are \$0.488 million lower than in 2008 due to reduced funding for new grant applicants or projects in 2009.
- A reduction in budgeted revenue of \$0.488 million due to decreased investment income projected as a result of poor market conditions. In addition, a one-time contribution for the construction of the Portlands Energy Centre received in 2008 will not be replicated in 2009.
- Budgeted revenue generated from the endowment fund is reduced by \$0.595 million as a result of poor market performance; therefore the balance of \$0.907 million is transferred from the capital fund to ensure operating levels are maintained.
- The 2009 Recommended Base Budget maintains the approved staff complement of 6 positions. However part-time hours are increased from 2 days per week to 3 days per week, for one position as a result of increased accounting responsibilities.

2009 Key Cost Drivers and Reduction Strategies

The 2009 Recommended Base Budget provides funding for the following key cost drivers:

- Annualization of the 2008 COLA and merit/step increases of \$0.044 million.
- Extended part-time hours resulting from increased accounting responsibilities will increase salary costs by \$0.016 million.
- In order to attract new candidates for the position of Executive Director a salary adjustment results in an increase of \$0.011 million.
- Salary increases not accounted for in the prior budgets require increased salary funding of \$0.017 million for retroactive salary adjustments.

As budgeted income generated from the endowment fund is reduced by \$0.595 as a result of poor market performance, the cost drivers noted above will be off-set by revenue transferred from the capital asset fund of \$0.907 million and fundraising activities.

2010 and 2011 Outlook: Net Incremental Impact

The 2010 and 2011 Outlooks include a gross incremental impact increase of \$0.017 million and \$0.018 million respectively; \$0 million net in both years for merit and step increases for TAF's current staff complement.

PART VI: ISSUES FOR DISCUSSION**2009 Budget Issues****2009 Recommended Operating Budget vs. Guideline**

The TAF program is self-sustaining and does not impact the municipal property tax levy. Sources of funding include TAF's endowment investment and fundraising activities.

Poor Market Performance

TAF has identified a \$3.978 million reduction in revenues generated from the endowment fund due to poor market performance in 2008 associated with the current global financial crisis. In early 2008, TAF moved management of market-based assets to two new investment management firms. The new investment managers are keeping TAF's assets prudently and diversely invested, and to date they are keeping asset value declines below the level experienced in the market at large. TAF recognizes that investment performance in 2009 will continue to be very uncertain. TAF will be providing quarterly variance reports to the City to monitor its investment income and revenue generated from fundraising.

Additional Part-time Hours

The permanent part-time hours for the manager of Finance and Accounting position has been extended from 2 days per week to 3 days per week due to increased accounting responsibilities associated with external program fund providers. Generally, a portion of all external funding is designated to support administration costs and TAF will endeavour to recover the salary increase of \$0.016 million in this manner.

Salary Adjustment to Attract new Executive Director

A salary adjustment of \$0.011 million has been incorporated into 2009 Recommended Budget to attract new candidates for the position of Executive Director.

Outstanding Issues from 2008 and Prior Years**Two New Positions created in 2008**

Two new temporary positions were approved during the 2008 Operating Budget process to support the four program areas (Solarcity, Towerwise, Lightsavers and Fleetwise); to continue to implement TAF's mandate-related investment program and to increase external fundraising capacity. The continuation of these positions beyond 2008 was conditional upon successful fundraising efforts. TAF exceeded fundraising targets in 2008 by 30 percent, and as a result will continue to support these two positions in 2009. TAF have set a target for external fundraising in 2009 that is comparable to this actual performance in 2008, excluding the one time Portlands Energy Centre contribution of \$0.400 million. TAF will continue to provide documentation to the City that TAF is capable of generating funding to support these two positions.

Appendix A

2009 Recommended Base Budget Changes vs. 2008 Approved Budget

(In \$000s)	Summary of 2009 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2010	2011
	\$	\$	\$	\$	\$	\$
2008 Council Approved Operating Budget	6.0	2,684.3	2,684.3	0.0	0.0	0.0
In-year approvals and technical adjustments						
Corporate adjustments						
2008 Approved Operating Budget	6.0	2,684.3	2,684.3	0.0	0.0	0.0
Prior year impacts		(494.1)	(800.0)	305.9		
Zero base items		5.8		5.8		
Economic factors						
Adjusted Base Budget	6.0	2,196.0	1,884.3	311.7	0.0	0.0
Other base changes						
Base revenue changes			311.7	(311.7)		
Recommended Service Level Adjustments:						
Base changes						
Service efficiencies						
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	0.0	0.0	311.7	(311.7)	0.0	0.0
2009 Recommended Base Budget	6.0	2,196.0	2,196.0	0.0	0.0	0.0
2009 Program Operating Target				0.0		
% Over (Under) Program Target				0.0%		
% Over (Under) 2008 Appvd. Budget				0.0%		

Appendix D

Program Summary by Expenditure Category

CLUSTER: ABC PROGRAM: Toronto Atmospheric Fund							
	2008 Approved Budget	2008 Projected Actuals	2009 Recommended Budget	Change from 2008 Approved Budget		2010 Outlook	2011 Outlook
	\$	\$	\$	\$	%	\$	\$
Salaries and Benefits	488.1	502.7	577.0	88.9	18.2%	594.3	612.1
Materials and Supplies	72.0	54.4	64.0	(8.0)	(11.1%)	64.0	64.0
Equipment							
Services & Rents	74.2	30.3	80.0	5.8	7.8%	80.0	80.0
Contributions to Capital							
Contributions to Reserve/Res Funds							
Other Expenditures	2,050.0	1,188.6	1,475.0	(575.0)	(28.0%)	1,475.0	1,475.0
Interdivisional Charges							
TOTAL GROSS EXPENDITURES	2,684.3	1,776.0	2,196.0	(488.3)	(18.2%)	2,213.3	2,231.1
Interdivisional Recoveries							
Provincial Subsidies							
Federal Subsidies							
Other Subsidies	600.0	814.7	350.0	(250.0)	(41.7%)	350.0	350.0
User Fees & Donations							
Transfers from Capital Fund							
Contribution from Reserve Funds	550.0	2,991.7	907.0	907.0	n/a	907.0	907.0
Contribution from Reserve		413.6		(550.0)	(100.0%)		
Sundry Revenues	1,534.3	(2,444.0)	939.0	(595.3)	(38.8%)	956.3	974.1
TOTAL REVENUE	2,684.3	1,776.0	2,196.0	(488.3)	(18.2%)	2,213.3	2,231.1
TOTAL NET EXPENDITURES (EXCLUDING CAPITAL FINANCING)	2,684.3	1,776.0	2,196.0	(488.3)	(18.2%)	2,213.3	2,231.1
APPROVED POSITIONS	6.0	6.0	6.0	0.0	0.0%	6.0	6.0