

**Western Climate Initiative, Inc.
Budget for Calendar 2020 and
Projected Expenditures for 2021**

November 7, 2019

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Introduction

This document describes the budget for calendar year 2020 and projected expenditures for calendar year 2021 for Western Climate Initiative, Inc. (WCI, Inc.) as adopted by the WCI, Inc. Board of Directors (“Board”) at its November 7, 2019 meeting (pending Board approval).

The requirements for cap-and-trade services were defined by the staff from the Participating Jurisdictions based on the support needed by the jurisdictions to implement their programs in 2020 and 2021. These jurisdiction requirements were used to define the work for the cap- and-trade services contractors. WCI, Inc. developed the requirements for WCI, Inc. personnel and direct operations needed to support the provision of these cap-and-trade services, as well as to carry out its administrative and organizational responsibilities.

The 2020 budget as well as the 2021 projection are also informed by two developments in 2019:

- Nova Scotia: The Nova Scotia program was successfully launched in January 2019 and included access to the tracking system and the market monitoring services provided by WCI, Inc. On May 14, 2019, the WCI Inc. funding agreement with the Province of Nova Scotia was amended to include auction services and financial administrative services starting in 2020.
- 2018-2021 Strategic Plan: The budget and projected expenses presented in this document include costs associated with the implementation of the WCI, Inc. 2018-2021 Strategic Plan. These costs are also informed by the findings of the Enterprise Architecture Assessment presented to the Board in May 2019. In September 2019, the Board approved an investment strategy to position WCI, Inc. at the forefront of future technology trends and expand its capacity to keep pace with market changes and the evolving needs of the partnership. The Compensation Review Committee also presented recommendations to maintain WCI, Inc. competitiveness in the industry in order to attract and retain high-quality staff.

The resulting budget and projection of expenditures presented in this document provide the best estimates of the anticipated fiscal requirements for the operation of WCI, Inc., noting that all *Cap-and-Trade Services* contracts are expiring within the next three years and will be recompeted beginning in 2020. All amounts shown are in U.S. dollars.

The 2020 budget and the projected 2021 expenditures for WCI, Inc. are presented in two categories – *Cap-and-Trade Services* and *Personnel and Direct Operations* – and summarized in Table 1. The *Cap-and-Trade Services* category includes expenditures for the contract services required to support the Participating Jurisdictions’ greenhouse gas emissions trading programs. The *Personnel and Direct Operations* category includes expenditures for operating WCI, Inc.

WCI, Inc. is fully funded by the jurisdictions that utilize the services it provides. The allocation of costs to the Participating Jurisdictions is based on the following:

- For *Cap-and-Trade Services* that are specific to a jurisdiction (e.g. onboarding, reserve sales or stand-alone auction), those costs are covered solely by the jurisdiction receiving the service.
- For shared *Cap-and-Trade Services* (e.g. joint auctions) as well as for *Personnel and Other Direct Costs*, costs are allocated to each Participating Jurisdiction based on the size of their program or more precisely the cap each jurisdiction has established for their program.

Table 1: Total Budget for WCI, Inc. for 2020 and Projected Expenditures for 2021

	2020 Budget	2021 Projected Expenditures
Cap-and-Trade Services	\$ 4,606,080	\$ 6,930,818
Personnel and Direct Operations	\$ 2,588,291	\$ 2,809,924
Total	\$ 7,194,371	\$ 9,740,743

Cap-and-Trade Services

The *Cap-and-Trade Services* category contains estimates for WCI, Inc. to accomplish its purpose to provide administrative and technical services to its Participating Jurisdictions. WCI, Inc. contracts for services requested by the Participating Jurisdictions to support their programs. The 2020 budget and the projected 2021 expenditures for *Cap-and-Trade Services* are described in the text below. The services required, and the cost of those services, are based on WCI, Inc.'s experience developing contracts with each of the contractors and managing their work.

Cap-and-Trade Services support the cap-and-trade programs for all Participating Jurisdictions. The contractors providing each of the services below are capable of expanding them, with appropriate funding, to include additional Participating Jurisdictions.

Compliance Instrument Tracking System Service (CITSS) Application Development, Support and Hosting

Since 2011, WCI, Inc. and the Participating Jurisdictions have worked with SRA International, Inc. (SRA), now known as General Dynamics Information Technology (GDIT), to develop and support CITSS. CITSS is the centralized market registry that provides accounts for market participants to hold and retire compliance instruments and to record transactions of compliance instruments with other account holders. CITSS is supporting programs in California, Québec and Nova Scotia.

CITSS hosting includes services and technology (hardware and software) necessary to ensure that the platform is online and available at specified levels of service to all program participants and the jurisdictions' staff.

Initial development of CITSS was funded by the California Air Resources Board (CARB). As a result of a procurement initiated in January 2012, WCI, Inc. contracted with SRA (now GDIT) in May 2012 for additional application development and hosting. The contract has been amended to support continued application development and hosting. The most recent contract amendment provides for support through December 31, 2021.

Auction and Reserve Sale Services

WCI, Inc. supports Participating Jurisdictions in executing joint-auctions, stand-alone auctions and stand-alone reserve sales of greenhouse gas emission allowances that conform to the jurisdictions' requirements. In 2011, CARB contracted with Markit Group Limited (Markit) to develop and implement an auction and reserve sale platform, and to serve as auction and reserve sale administrator. In January 2013, WCI, Inc. contracted with Markit to build on its work with CARB and develop and implement the auction and reserve sale platform to support auctions and reserve sales among linked programs in California and Québec.

WCI, Inc. released a request for proposal in March 2015 to procure auction and reserve sale services, in accordance with the Procurement Policy. In June 2016, the Board approved a new contract with Markit over the period of June 15, 2016 to January 31, 2021.

Financial Administrative Services

As part of supporting the execution of auctions and reserve sales, WCI, Inc. provides financial administrative services, which includes evaluation of bid guarantees and conduct of settlement for auctions and reserve sales. In collaboration with the Participating Jurisdictions, CARB contracted with Deutsche Bank in 2011 to provide these services for CARB auctions and reserve sales. WCI, Inc. contracted with Deutsche Bank in 2013 to support Québec's first auction and to support joint auctions.

WCI, Inc. released a request for expression of interest in February 2016 to procure financial administrative services, in accordance with the Procurement Policy. The result of this procurement was a contract with Deutsche Bank through January 31, 2021. The 2020 budget and projected expenditures for 2021 includes costs associated with joint auctions and Reserve Sales for California and Québec and stand-alone auctions and Reserve Sales for Nova Scotia.

Market Monitoring

WCI, Inc. supports the Participating Jurisdictions by contracting for analyses that support market monitoring. These analyses include review and evaluation of auctions and reserve sales to identify any inappropriate market activity or deviations from the requirements of each Participating Jurisdiction's program. The analyses include ongoing examination of allowance and offset holdings and transfer activity to identify any potentially inappropriate market activity. The results of the analyses are provided to the Participating Jurisdictions, each of which retains its market monitoring responsibilities and authorities.

In 2015, in accordance with the WCI, Inc. Procurement Policy, WCI, Inc. staff, with the assistance and involvement of Participating Jurisdictions, developed and executed an open competitive process for procuring Market Monitoring Services. The contract was awarded to Monitoring Analytics over the period of December 1, 2015 to January 31, 2020. The contract includes an optional two-year extension.

Strategic Plan Implementation

The 2020 budget and projected expenditures for 2021 includes costs associated with the investment strategy to position WCI, Inc. at the forefront of future technology trends and expand its capacity to keep pace with market changes and the evolving needs of the partnership.

If there is a transition to new service providers, services from any new service providers will likely overlap with services from incumbent service providers for a period of time. Expenditures from the Strategic Plan Implementation will only occur after Board approval of new or modified contracts, in compliance with the requirements of the Procurement Policy.

Cash Flow Reserve

Prudent management of funds and cash flow requires that WCI, Inc. maintain funds such that an unexpected expenditure or an unexpected delay in receipt of funds through the funding agreements would not impede its ability to provide services to the jurisdictions. A cash flow reserve also recognizes that jurisdiction funding agreements have typically been for two years, while budgets are annual, and allows WCI, Inc., with the approval of the Board and Participating Jurisdictions, some inter-year flexibility in expenditures.

Because of conservative budgeting (e.g., budgeting for reserve sales even though they have not yet been required) and some shifting of the timing of expenses such as hiring WCI, Inc. staff, WCI, Inc. has had a cash flow reserve since the end of its first full year of operation, 2012. Since mid-2013, that cash flow reserve has been approximately six months of anticipated expenditures. The cash flow reserve does not appear as a budget line item, because it is not a projected expenditure. The development of jurisdiction funding agreements has incorporated and will in the future incorporate the existence of a cash flow reserve. The level of jurisdiction funding agreements could be lower than a future budget, if the cash flow reserve were to be drawn down.

The Executive Director recommends that approximately 6 months of expenses provides an appropriate level of cash flow reserves.

At the beginning of 2020, the cash flow reserve is expected to equal approximately six months of expenses. Assuming that new funding agreements will be executed during the first quarter of 2020, cash flow reserve would fluctuate around the recommended level throughout the year. Reevaluation of the appropriate level of reserves, development of the 2021 budget, and development of future jurisdiction funding agreements will be done in concert to ensure an appropriate cash flow reserve.

This cash flow reserve is different from items in previous budgets with similar names, such as the “Procurement Reserve” in the 2015 budget. WCI, Inc. executed several competitive procurement processes in 2015 and 2016. The procurement reserve allowed for the possibility of additional development work for any new or modified systems, or overlap of service providers if there was a transition to a new service provider.

Personnel and Direct Operations

The *Personnel and Direct Operations* category contains cost estimates for the operation of WCI, Inc. This category includes expenditures for staff salaries and benefits, office rent and equipment, professional, technical and administrative support services, insurance fees, travel and meeting expenses, and other direct operating expenses. The budget estimates are based on WCI, Inc. operating experience, and the anticipated evolution of the cap-and-trade program requirements as specified by the Participating Jurisdictions. This includes resources to support the implementation of the Strategic Plan. The 2020 budget and projected expenditures for 2021 are summarized in and described in the text below.

Personnel

WCI, Inc. personnel carry out the responsibilities for WCI, Inc. as directed by the Board and are responsible for day-to-day operation of the organization and for oversight and management of the contractors hired to provide cap-and-trade services as described above. The 2020 budget and projected 2021 expenditures include up to thirteen staff positions.

The revised 2020 personnel budget and projected 2021 expenditures include salary and benefits for employees and payments to contractors providing technical and administrative services. The budget for personnel and staffing is \$1,856,313 in 2020 and the projected expenditures for personnel and staffing in 2021 are \$2,043,001.

Office Rent and Equipment

WCI, Inc. opened an office in Sacramento, California, in September 2012 and an Office in Québec City in March 2016. Both the Sacramento office and Québec City office are located in executive office suites that are fully furnished; rent includes access to a copier, telephone, internet and other standard office amenities. The 2020 budget includes provisions for the potential expansion of the Sacramento office to support the evolving staffing and operations requirements of the corporation.

The budget for office rent, as well as computers, office supplies, and other equipment, totals \$282,648 in 2020, and the projected expenditures in 2021 are \$202,921.

Professional and Administrative Support Services

WCI, Inc. has engaged the services of several professionals to support WCI, Inc. operations in Sacramento and Québec, including:

- legal counsel;
- accountants to administer the accounting systems, advise on accounting procedures, report on the financial activities of the corporation, and prepare tax returns;
- an auditor to provide audit and tax services; and
- payroll services that also supports all payroll tax filings and the management of several human resources activities, including employee benefits.

WCI, Inc. has also budgeted for translation services (French and English), information technology (IT) support, and outreach and communications services. The budget for IT services primarily covers the purchase of security certificates (SSL) for the WCI, Inc. websites maintained to administer the program and for an IT contractor to maintain WCI, Inc. equipment. The budget for outreach and communications covers the costs of stakeholder engagement sessions, communication of key program information, and hosting, maintenance, and updates to the WCI, Inc. website, as determined by the Board and Executive Director.

The total estimate for these professional and administrative support services is \$341,750, with projected expenditure level of \$348,585 for 2021.

Insurance Fees

WCI, Inc. has obtained corporate insurance policies including coverages for general liability, professional liability, directors and officers' liability, employment practices liability, and workers' compensation to meet needs for both U.S. and Canadian operations. The total cost for insurance coverage is \$50,000 in 2020 and projected expenditure level are \$156,736 for 2021 to support the evolving needs of the Participating Jurisdictions.

Travel, Meetings and Other Expenses

The 2020 budget and projected 2021 expenditures include travel by U.S. and Canadian staff as necessary to carry out their project management responsibilities and to attend organizational meetings. All WCI, Inc. travel must be approved in advance by the Executive Director and is limited by *per diem* rates equal to those established by the U.S. and Canadian federal government for staff based respectively in the U.S and in Canada.

The budget and projected expenditures also include expenses associated with WCI, Inc. meetings in the U.S. and Canada, including meetings of the Board. Consistent with WCI, Inc.'s Open Meeting Policy, the budget for meeting expenses includes costs associated with hosting public meetings, including conference room rental, audio-visual equipment, reproduction of documents, and other direct expenses.

The budget and projected expenditures include a category for other operating costs that are not yet otherwise included or anticipated. The budget for other expenses may cover budgeted costs that turn out to be higher than was expected.

The total estimate for Travel, Meeting and Other Expenses is \$ 57,580, with projected expenditure level of \$ 58,682 for 2021.

Table 2: 2020 Personnel and Direct Operations Budget and Projected Expenditures for 2021

	2020 Budget	2021 Projected
Personnel	\$ 1,856,313	\$ 2,043,001
Office Rent and Equipment	\$ 282,648	\$ 202,921
Professional and Administrative Support	\$341,750	\$348,585
Insurance Fees	\$ 50,000	\$ 156,736
Travel, Meetings and Other Expenses	\$ 57,580	\$ 58,682
Total	\$ 2,588,291	\$ 2,809,924