



# 2021 Budget and Projections for 2022

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## 1. Introduction

This document describes the budget for calendar year 2021 and projected expenditures for calendar year 2022 for Western Climate Initiative, Inc. (WCI, Inc.) as adopted by the WCI, Inc. Board of Directors ("Board") at its October 21, 2020 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 2021 and 2022. 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 2021 budget as well as the 2022 projection are also informed by development regarding the implementation of the WCI, Inc. [2018-2021 Strategic Plan](#), including:

- The findings of the Enterprise Architecture Assessment, presented to the Board in May 2019;
- 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, approved by the Board in September 2019;
- The recommendations of the Compensation Review Committee, to maintain WCI, Inc. competitiveness in the industry in order to attract and retain high-quality staff, approved by the Board in November 2019;
- The results and ongoing work associated to the [Enterprise Solution Professional IT Services Procurement](#), initiated in February 2020;
- The results of the [Financial Services for Auctions and Reserve Sale Procurement](#), pending Board approval.

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 recompeteted progressively, as need be. All amounts shown are in U.S. dollars.

The 2021 budget and the projected 2022 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 2021  
and Projected Expenditures for 2022**

Category	2021 Budget	2022 Projected
Cap-and-Trade Services	\$ 6,400,143	\$ 5,855,088
Personnel and Direct Operations	\$ 3,496,538	\$ 3,682,930
<b>Total</b>	<b>\$ 9,896,681</b>	<b>\$ 9,538,018</b>

## 2. 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 2021 budget and the projected 2022 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.

### 2.1 Market Registry

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 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. The market registry is the official record supporting programs in California, Québec and Nova Scotia.

The market registry 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 the market registry 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 latest [amendment to the SRA Agreement](#) approved by the Board, covers the period from January 30, 2020 to December 31, 2024.

## 2.2 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. The latest [Amendment to the Markit Agreement](#), approved by the Board in January 2020, covers the period from June 15, 2016 to January 31, 2023.

## 2.3 Financial Services

As part of supporting the execution of auctions and reserve sales, WCI, Inc. provides financial 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 services, in accordance with the Procurement Policy. The result of this procurement was a contract with Deutsche Bank. In November 2019, the WCI, Inc. Board of Directors approved an [Amendment to the Agreement with DBNTC](#) to extend contract term from January 1, 2020 to January 31, 2021 and to support Nova Scotia auctions beginning in 2020.

WCI, Inc. released a new request for proposal for Financial Services for Auctions and Reserve Sale in February 2020, in accordance with the Procurement Policy. The results of the procurement are pending Board approval at the October 2020 Annual Board Meeting.

The 2021 budget and projected expenditures for 2022 includes costs associated with joint auctions and reserve sales for California and Québec and stand-alone auctions and reserve sales for Nova Scotia.



## 2.4 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. In November 2019, the WCI, Inc. Board of Directors approved an [Amendment to the Agreement with Monitoring Analytics](#) to extend contract term to December 31, 2022.

The 2021 budget and projected expenditures for 2022 also includes subscription costs to California Carbon Info to provide jurisdiction staff access to market data to support their market monitoring responsibilities.

## 2.5 Strategic Plan Implementation

The 2021 budget and projected expenditures for 2022 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](#).

## 2.6 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 six months of expenses provides an appropriate level of cash flow reserves.

At the beginning of 2021, the cash flow reserve is expected to equal approximately six months of expenses and would fluctuate around the recommended level throughout the year.

Reevaluation of the appropriate level of reserves, development of the 2022 budget, and development of future jurisdiction funding agreements will be done in concert to ensure an appropriate cash flow reserve.

### 3. 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 2021 budget and projected expenditures for 2022 are summarized and described in the text below.

#### 3.1 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 2021 budget and projected 2022 expenditures include staff positions to support the ongoing operations of the organization.

The revised 2021 personnel budget and projected 2022 expenditures include salary and benefits for employees and payments to contractors providing technical and administrative services. The budget for personnel and staffing is \$2,764,152 in 2021 and the projected expenditures for personnel and staffing in 2022 are \$2,938,664.

#### 3.2 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 2021 budget includes provisions for the relocation 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 \$173,895 in 2021, and the projected expenditures in 2022 are \$165,952.

### 3.3 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 \$333,229 in 2021, with projected expenditure level of \$341,773 for 2022.

### 3.4 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 budget for insurance coverage is \$156,736 in 2021 and projected expenditure level are the same for 2022 to support the evolving needs of the Participating Jurisdictions.

### 3.5 Travel, Meeting and Other Expenses

The 2021 budget and projected 2022 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.



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 \$68,527 in 2021, with projected expenditure level of \$79,805 for 2022.

**Table 2. 2021 Personnel and Direct Operations Budget  
and Projected Expenditures for 2022**

Sub-category	2021 Budget	2022 Projected
Personnel	\$2,764,152	\$2,938,664
Professional and Administrative Support	\$333,229	\$341,773
Office Rent and Equipment	\$173,895	\$165,952
Insurance Fees	\$156,736	\$156,736
Travel, Meeting and Other Expenses	\$68,527	\$79,805
<b>Total</b>	<b>\$3,496,538</b>	<b>\$3,682,930</b>