

2023 Budget and Projections for 2024

OCTOBER 31, 2022



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1. Introduction

This document describes the budget for calendar year 2023 and projected expenditures for calendar year 2024 for Western Climate Initiative, Inc. (WCI, Inc.) as adopted by the WCI, Inc. Board of Directors (“Board”) at its October 31, 2022, meeting (pending board approval).

The requirements for emissions trading services were defined by the personnel from the Participating Jurisdictions based on the support needed by the jurisdictions to implement their programs. These jurisdiction requirements were used to define the work for the emissions trading services contractors. WCI, Inc. developed the requirements for personnel and direct operations needed to support the supervision of emissions trading services, as well as to carry out its administrative and organizational responsibilities.

The 2023 budget and 2024 projections, are also informed by the implementation of the WCI, Inc. [2022-2024 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.’s competitiveness in the industry to attract and retain high-quality personnel, presented to the Board in November 2019, and periodic compensation reviews performed by an independent firm.
- The release of the new [WCI, Inc. Auction Platform](#) and the subsequent auctions since August 2021.
- The results of recent [procurements](#) for software development services, financial services, and market monitoring services.
- The inclusion of Washington State as a WCI, Inc. Participating Jurisdiction in December 2021.

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 current *Emissions Trading Services* contracts will be recompeted progressively as needed. All amounts shown are in U.S. dollars.

The 2023 budget and the projected 2024 expenditures for WCI, Inc. are presented in two categories – *Emissions Trading Services* and *Personnel and Direct Operations* – and summarized in Table 1. The *Emissions Trading Services* category includes expenditures for the contract services required to support the Participating Jurisdictions’ 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 *Emissions Trading Services* and *Personnel and Other Direct Costs* specific to a jurisdiction (e.g., onboarding, reserve sales or stand-alone auctions, development for jurisdiction-specific requirements), those costs are covered solely by the jurisdiction receiving the service.

- For shared *Emissions Trading 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 emissions cap each jurisdiction has established for their program.

**Table 1. Total Budget for WCI, Inc. for 2023
and Projected Expenditures for 2024**

Category	2023 Budget	2024 Projected
Emissions Trading Services	\$ 8,092,602	\$ 5,425,265
Personnel and Direct Operations	\$ 4,277,208	\$ 4,180,910
Total	\$ 12,369,810	\$ 9,606,175

2. Emissions Trading Services

The *Emissions Trading Services* category contains estimates for WCI, Inc. to accomplish its purpose of providing administrative and technical services to its Participating Jurisdictions. WCI, Inc. contracts for services requested by the Participating Jurisdictions to support their programs. The 2023 budget and the projected 2024 expenditures for *Emissions Trading 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 contractor and managing their work.

Emissions Trading Services support the cap-and-trade programs for all Participating Jurisdictions. The contractors providing each of the services below are capable of expansion, 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 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, Nova Scotia, and Washington State.

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' personnel.

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 each jurisdiction's requirements.

With the release of the new [WCI, Inc. Auction Platform](#), which supported its first auction in August 2021, all auction and reserve sale services are fully supported by WCI, Inc. personnel.

2.3 Financial Services

To support the execution of auctions and reserve sales, WCI, Inc. provides financial services, including managing bid guarantees and settlements for auctions and reserve sales.

In collaboration with the Participating Jurisdictions, CARB contracted with Deutsche Bank North American Trust Company (DBNTC) in 2011 to provide these services for CARB auctions and reserve sales. Following [procurements](#) in 2013, 2016, and 2020, WCI, Inc. contracted with DBNTC to provide financial services of auctions and reserve sales for all of its Participating Jurisdictions. The current [DBNTC Agreement](#), approved by the Board, covers the term from November 1, 2021, to January 31, 2026.

The 2023 budget and projected expenditures for 2024 for financial services include costs associated with joint auctions and reserve sales for California and Québec, and stand-alone auctions and reserve sales for Nova Scotia, and Washington State.

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, as well as the review of secondary and derivative market 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.

Following [procurements](#) in 2015 and 2021, WCI, Inc. contracted with Monitoring Analytics to support market monitoring. The current [Monitoring Analytics Agreement](#), approved by the Board, includes a base period from November 1, 2021, to January 31, 2026 and an option to extend the agreement to January 31, 2028.

The 2023 budget for market monitor services include costs associated with a subscription to California Carbon Info to provide jurisdiction personnel access to market data to support their market monitoring responsibilities.

2.5 Strategic Plan Implementation

The 2023 budget and projected expenditures for 2024 include 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.

To develop the new integrated platform, as approved by the Board in September 2019, WCI, Inc. must contract with service providers capable of developing, validating, and testing the new

platform. Per the results of the [IT Services Procurement in 2020](#), WCI, Inc. completed the first phase of the project with the release of the new [WCI, Inc. Auction Platform](#), which supported its first auction in August 2021.

In 2021, WCI, Inc. conducted a second procurement ([IT Services Procurement 2021-02](#)). The results of the 2021 procurement enabled WCI, Inc. to initiate the second phase of the project, the development of the new registry platform. WCI, Inc. personnel will keep working with service providers capable of developing, validating, and testing the new registry application.

If there is a transition to new service providers, services from any new service providers will likely overlap with services from incumbent service providers to ensure service continuity. Expenditures from the Strategic Plan Implementation will only occur after 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. The cash flow reserve 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. personnel, WCI, Inc. has had a cash flow reserve since the end of its first full year of operation in 2012. 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 to 12 months of expenses provide an appropriate level of cash flow reserves. At the end of 2023, the cash flow reserve is expected to equal approximately 9 months of expenses. Reevaluation of the appropriate level of reserves, development of the 2024 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 personnel 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.'s operating experience and the anticipated evolution of the emissions trading program requirements as specified by the Participating Jurisdictions. This includes resources to support the implementation of the Strategic Plan. The 2023 budget and projected expenditures for 2024 are summarized in Table 2 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 the day-to-day operations of the organization and oversight and management of the contractors hired to provide *Emissions Trading Services* as described above.

The 2023 personnel budget and projected expenditures for 2024 include salary and benefits for employees and individual contractors providing technical and administrative services.

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. Following Board approval, WCI, Inc. relocated its Sacramento office to support the corporation's evolving personnel and operations requirements. The Québec City office is in an executive office and fully furnished; rent includes access to a copier, internet, and other standard office amenities.

3.3 Professional and Administrative Support Services

WCI, Inc. has engaged the services of 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;
- advisor services to support IT audits, compensation reviews, financial controls, or other technical work as needed;
- human resources services, including support for payroll services, payroll tax filings, and the management of employee benefits;
- translation services (French and English) to support the production of bilingual materials and real-time interpreter services for Board meetings;
- information technology (IT) support for the purchase and maintenance of IT equipment and security certificates (SSL) for the WCI, Inc. websites to administer the program; and
- outreach and communication services to cover the cost of developing and communicating key program information through the [WCI, Inc. website](#) and participation in outreach activities or public events as determined by the Board and Executive Director.

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.

3.5 Travel, Meeting, and Other Expenses

The 2023 budget and projected 2024 expenditures include travel by U.S. and Canadian personnel as necessary to carry out their project management responsibilities and to attend organizational meetings. All WCI, Inc. travel must be approved by the Executive Director and is limited by *per diem* rates equal to those established by the U.S. and Canadian federal governments.

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 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 expected.

**Table 2. 2023 Personnel and Direct Operations Budget
and Projected Expenditures for 2024**

Sub-category	2023 Budget	2024 Projected
Personnel	\$ 3,468,476	\$ 3,401,187
Professional and Administrative Support	\$ 440,887	\$ 408,400
Office Rent and Equipment	\$ 156,894	\$ 159,204
Insurance Fees	\$ 130,000	\$ 130,000
Travel, Meeting and Other Expenses	\$ 80,951	\$ 82,120
Total	\$ 4,277,208	\$ 4,180,910