

**Western Climate Initiative, Inc.
Budget for Calendar 2019 and
Projected Expenditures for 2020 and 2021
October 11, 2018**

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Introduction

This document describes the budget for calendar year 2019 and projected expenditures for calendar year 2020 and 2021 for Western Climate Initiative, Inc. (WCI, Inc.) as adopted by the WCI, Inc. Board of Directors (“Board”) at its October 11, 2018 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 2019, 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 2019 budget as well as the 2020 and 2021 expenditure projection are also informed by three developments in 2018:

- Nova Scotia: Effective May 14, 2018, WCI Inc. entered into a funding agreement with the Province of Nova Scotia to support the implementation of their planned cap-and-trade program. Nova Scotia plans to utilize the Compliance Instrument Tracking System (CITSS) and the services of the market monitor. Work to on-board Nova Scotia was initiated in June 2018. The 2019 budget and 2020 and 2021 projections include costs associated with enhancements to CITSS that are necessary for Nova Scotia's program, access to market monitoring services and costs associated with WCI, Inc. personnel and other operating costs.
- Ontario: On July 3, 2018 the Province of Ontario revoked its cap-and-trade regulation. On August 31, 2018, the Province of Ontario sent a letter to WCI, Inc. indicating its intent to amend the WCI, Inc. funding agreement to end its relationship with WCI, Inc. Consequently, joint and jurisdiction specific costs associated with the ON cap-and-trade program have been removed from the 2019 budget and the 2020 and 2021 projections.
- Strategic Plan: WCI, Inc. has recently completed its first strategic plan (pending Board approval). The budget and projected expenses presented in this document include costs associated with the implementation of the strategic plan.

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. All amounts shown are in U.S. dollars.

The 2019 budget and the projected 2020 and 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 shared *Cap-and-Trade Services* (e.g. joint auctions), 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.
- For *Cap-and-Trade Services* that are specific to a jurisdiction (e.g. reserve sales), those costs are covered solely by the jurisdiction receiving the service.
- *Personnel and Other Direct Costs* are utilized by all jurisdictions and are necessary for the operation of WCI, Inc. Therefore, *Personnel and Other Direct Costs* are shared equally by the Participating Jurisdictions. If a Participating Jurisdiction is only using a portion of the services (e.g. CITSS and Market Monitoring), then that jurisdiction is only responsible for a portion of the *Personnel and Other Direct Costs*.

**Table 1: Total Budget for WCI, Inc. for 2019
and Projected Expenditures for 2020 and 2021**

	2019 Budget	2020 Projected Expenditures	2021 Projected Expenditures
Cap-and-Trade Services	\$ 2,387,305	\$ 2,518,955	\$ 2,420,205
Personnel and Direct Operations	\$ 1,447,549	\$ 1,485,498	\$ 1,526,964
Total	\$ 3,834,854	\$ 4,004,453	\$ 3,947,169

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 2019 budget and the projected 2020 and 2021 expenditures for *Cap-and-Trade Services* are summarized in Table 2 and 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 the Compliance Instrument Tracking System Service (CITSS). CITSS 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 CITSS 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). In May 2012, WCI, Inc. contracted with SRA (now GDIT) for additional application development and hosting, and the contract has been amended to support continued application development and hosting. The most recent contract amendment (pending Board approval) provides for support through December 31, 2020 bringing the total contract value to \$11,264,539.

The budget for CITSS development, application support, and hosting through the WCI, Inc.

contract with GDIT is \$1,118,600 in 2019. Projected expenditures for these services in 2020 and 2021 are respectively of \$1,125,000 and \$ 1,130,000 per year. The 2020 and 2021 expenditure projection includes continued hosting and application support, as well as ongoing jurisdiction development needs. The 2019 budget and projected expenses for 2020 and 2021 assume CITSS is a mature technology and includes funding for maintaining the application and accommodation for only minor upgrades to meet the needs of the Participating Jurisdictions.

Compliance Instrument Tracking System Service (CITSS) Help Desk

From October 2012 to the end of September 2017, WCI, Inc. contracted with ICF Incorporated, LLC to provide multi-jurisdictional telephone and online customer assistance for CITSS users in English and French. During those five years, the ICF Help Desk role was to field inquiries from CITSS users, resolve user questions that fell within their scope of service, and refer inquiries that fell outside their scope of services to the appropriate staff designated by WCI, Inc. and the Participating Jurisdictions.

Prior to September 2017, ICF notified WCI, Inc. that they were no longer able to support the CITSS Help Desk. WCI, Inc., in coordination with jurisdiction staff, supported the transition of the shared CITSS Help Desk support to jurisdiction staff.

The need to engage with a new service provider will be reevaluated during the 3rd Quarter of 2019. If it is determined that a Help Desk would benefit the Participating Jurisdictions, a procurement will be undertaken in 2019. The 2020 and 2021 budget projections include estimated costs to support onboarding a new service provider and an estimate for monthly support.

Auction and Reserve Sale Services

WCI, Inc. supports Participating Jurisdictions in executing coordinated auctions of greenhouse gas emission allowances that conform to the jurisdictions' requirements. WCI, Inc. also supports the execution of reserve sales from the Participating Jurisdictions' programs. 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. The contract with Markit was amended to provide auction and reserve sale services through December 31, 2016. In June 2016, the Board approved a new contract with Markit with a total value of \$3,977,023 over the period of June 15, 2016 to January 31, 2021.

The 2019 budget includes costs associated with Joint Auctions and Reserve Sales for California, and Québec. The 2019 budget Auction and Reserve Sale Administrator Services is \$606,168 with the same expenditure level projected for 2020 and 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 (REI) 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. The total value of the contract through January 31, 2021 is \$3,072,000. The 2019 budget for financial administrative services is \$512,000 with the same expenditure level projected for 2020 and 2021. The 2019 budget and projected expenditures for 2020 and 2021 includes costs associated with joint auctions and Reserve Sales for California and Québec.

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. Also, 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, and has a contract value of \$691,390 over the period of December 1, 2015 to January 31, 2020. The contract includes an optional two-year extension with a value of \$324,127.

The 2019 budget for market monitor services is \$150,537. Projected expenditures for these services in 2020 and 2021 are \$157,037 per year. In addition to the support provided by Monitoring Analytics, the 2019 budget and 2020 and 2021 projected expenditures include costs associated with a subscription to California Carbon Info to provide jurisdiction staff access to market data to support their market monitoring responsibilities.

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 2019, the cash flow reserve is expected to equal about 10 months' expenses. The 2019 budget would begin to return the cash flow reserve to the recommended level, with about 7.5 months' expenses in the reserve at the end of the year. Reevaluation of the appropriate level of reserves, development of the 2020 budget and 2021 projected expenditures, 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.

Table 2: 2019 Cap-and-Trade Services Budget and Projected Expenditures for 2020 and 2021

	2019 Budget	2020 Projected Expenditures	2021 Projected Expenditures
CITSS Development, Support, and Hosting	\$1,118,600	\$1,125,000	\$1,130,000
CITSS Help Desk	\$0	\$118,750	\$15,000
Auction Services	\$606,168	\$606,168	\$606,168
Financial Administrative Services	\$512,000	\$512,000	\$512,000
Market Monitoring	\$150,537	\$157,037	\$157,037
Subtotal	\$2,387,305	\$2,518,955	\$2,420,205

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.

The 2019 budget and projected expenditures for 2020 and 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 2019 budget and projected 2020 and 2021 expenditures include six staff positions. The six staff positions are:

- an Executive Director located in the U.S.;
- an Assistant Executive Director located in Canada to support the Executive Director with operational and business requirements and to assist with oversight of Project Managers for cap-and-trade services;
- two Project Managers to coordinate cap-and-trade services;
- a Business Analyst to support Project Managers in the documentation and coordination of cap-and-trade services; and
- an Operations Manager.

The revised 2019 personnel budget and projected 2020 and 2021 expenditures include salary and benefits for employees and payments to contractors providing technical and administrative services. The budget for personnel and staffing is \$982,549 in 2019 and the projected expenditures for personnel and staffing in 2020 and 2021 are \$1,014,258 and \$1,048,860, respectively.

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 budget for office rent, as well as computers, office supplies, and other equipment, totals \$106,800 in 2019, and the projected expenditures in 2020 and 2021 are \$113,040 and \$119,904, respectively.

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 \$271,700, with the same expenditure level projected for 2020 and 2021. The total cost for each year includes \$102,000 per year for legal services, \$48,000 per year for accountant services, \$40,000 per year for auditor services, \$24,000 per year for translation services, \$35,700 per year for IT services, \$12,000 per year for payroll services, and \$10,000 for outreach and communications.

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 \$48,000 each year.

Travel and Meeting Expenses

The 2019 budget and projected 2020 and 2021 expenditures include travel by U.S. and Canadian staff as necessary to carry out their project management responsibilities and to attend organizational meetings. In 2019, the budget for U.S. travel is \$15,000 and the budget for Canadian travel is \$9,000. The same expenditure level are projected for 2020 and 2021. 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 2019 budget and projected 2020 and 2021 expenditures include \$2,500 for meetings in the U.S. and Canada each year.

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 was expected. The budget for other expenses is \$12,000 each year.

**Table 3: 2019 Personnel and Direct Operations Budget
and Projected Expenditures for 2020 and 2021**

	2019 Budget	2020 Projected	2021 Projected
Personnel	\$ 982,549	\$ 1,014,258	\$ 1,048,860
Professional and Administrative Support	\$ 271,700	\$ 271,700	\$ 271,700
Legal Services	\$102,000	\$102,000	\$102,000
Accountant Services	\$48,000	\$48,000	\$48,000
Auditor Services	\$40,000	\$40,000	\$40,000
Payroll Processing	\$12,000	\$12,000	\$12,000
IT Services	\$35,700	\$35,700	\$35,700
Translation Services	\$24,000	\$24,000	\$24,000
Communications/Outreach	\$10,000	\$10,000	\$10,000
Office Rent and Equipment	\$106,800	\$113,040	\$119,904
Office Rent – US	\$62,400	\$68,640	\$75,504
Office Rent – Canada	\$18,000	\$18,000	\$18,000
Equipment, supplies, telephone	\$26,400	\$26,400	\$26,400
Insurance Fees	\$48,000	\$48,000	\$48,000
Travel, Meeting and Other Expenses	\$38,500	\$38,500	\$38,500
US Travel	\$15,000	\$15,000	\$15,000
Canadian Travel	\$ 9,000	\$ 9,000	\$ 9,000
US & Canadian Meeting Costs	\$2,500	\$2,500	\$2,500
Other Expenses	\$12,000	\$12,000	\$12,000
Total	\$1,447,549	\$1,485,498	\$1,526,964