MEMORANDUM

To: WCI, Inc. Board of Directors
From: WCI, Inc. Staff
Date: April 20, 2017
Subject: Proposed Amendment to the WCI, Inc. Funds Management Policy

Summary

WCI, Inc. (the "Corporation") operates under a Funds Management Policy[1] (the "Policy") that establishes requirements for the management of the Corporation's funds. The purpose of this memorandum is to recommend to the Board that, consistent with the objectives of the Policy and in order to allow for the efficient operation of the Corporation, the Policy be amended to allow the Corporation to hold cash that is not insured. The amount of uninsured cash and the time it is not insured should be minimized, and should not exceed $250,000 US dollars (USD) and $500,000 Canadian dollars (CAD). It is also recommended that the Policy be amended to recognize that funds received through checks, wire transfers or other transfers may be placed on temporary hold by a Custodian.

Introduction to the Funds Management Policy

The Policy states the fund management objectives of the Corporation:

1. Funds shall be managed in a manner that complies with all applicable laws.
2. Funds shall be managed in a matter that complies with all requirements specified in funding agreements entered into by the Corporation.
3. Funds shall be managed to support the cash flow requirements of the Corporation as developed by the Treasurer, including expected requirements in Canadian and U.S. dollars.
4. Funds shall be managed to preserve principal to the maximum extent possible.
5. Funds shall be managed to achieve a competitive rate of return (net of fees), consistent with the achievement of the other objectives, in particular recognizing the paramount importance of the preservation of principal.

Consistent with these objectives, the Policy defines a standard of care, and lists the permissible asset types and permitted ranges of the percentage of total assets the Corporation may hold in each type. It requires the Treasurer to present an evaluation of compliance with the Policy to the Board each year.[2]

The Policy also includes sections on prohibited activities, unique circumstances, and the Board's acknowledgement of the importance of adhering to the policy.

[1] http://wci-inc.org/docs/Funds_Management_Policy_Amendment (09-29-16)_English.pdf

[2] http://wci-inc.org/docs/Treasurer's_Report_Evaluation_of_Compliance_with_Funds_Management_Policy_(September 29, 2016)_English.pdf

Asset Allocation

The Policy includes a table of the financial assets the Corporation may use, consistent with its objectives, to manage the Corporation's funds. Table 1 from the Policy is reproduced here.

Table 1: Asset Allocation

Asset	Allocation Range
Cash in interest-bearing and non-interest-bearing accounts, in amounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC), the Canadian Deposit Insurance Corporation (CDIC) or the Autorité des marches financiers (AMF).	0% to 100%
Certificates of Deposit in amounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Canadian Deposit Insurance Corporation (CDIC).	0% to 75%
United States Treasury Securities	0% to 75%
Government of Canada bonds and treasury bills	0% to 75%
General Obligation Bonds Issued by any of the Participating Jurisdictions	0% to 25%

The Corporation maintains accounts at Bank of the West in the US and Desjardins in Canada to meet the financial obligations of the Corporation in each region. Bank of the West accounts include a single checking account, repurchase agreements, and certificates of deposit, which support the majority of the Corporation's cash flow requirements. The Bank of the West checking account is insured by the FDIC up to $250,000 USD. Each of the certificates of deposit is also insured by the FDIC up to $250,000 USD. Repurchase agreements are backed by US Treasury Bonds and can be held in any amount to support the Corporation's cash requirements. At Desjardins, the accounts in which the Corporation is eligible to hold its funds are insured by the AMF up to $100,000 per financial institution.

The Corporation's operations in Canada require cash holdings of greater than the $100,000 CAD AMF insurance limit. In order to comply with the Policy, the Corporation has opened, and maintains, multiple checking accounts, each at a different institution within the Dejardins network, to ensure all deposits are fully insured. Using multiple checking accounts increases the administrative time required to manage WCI, Inc. funds and increases the risk that errors or fraud could result in a failure to meet the cash flow needs of the Corporation or even the loss of funds. As noted by the Finance Committee in its March 14, 2016 memo to the Board, holding many checking accounts "was considered impractical, as it implied significant staff resources to maintain the accounts and regularly transfer cash to manage the Corporation's cash-flow needs. It also would increase the complexity of the oversight work performed by the Finance Committee, Audit Committee, and external auditors." In addition, the Corporation is required to remit quarterly sales tax payments that exceed $100,000 CAD. Making these payments requires funds in excess of $100,000 CAD be placed in a single Desjardins account. It is impossible for the Corporation to be in full compliance with the asset allocation requirements of the current Policy while meeting its obligations.

Likewise, for its US operations, we anticipate that the Corporation will from time to time be required to make payments to a vendor or vendors larger than the $250,000 USD FDIC insurance limit. As it is currently written, the Policy prohibits amounts in US accounts above the FDIC insurance limit. It is impossible for the Corporation to be in full compliance with the asset allocation requirements of the current Policy while meeting its obligations.

We have examined options for managing cash flow at our current financial institutions and found that enabling cash to be held in excess of the insurance limits would allow the Corporation to meet its obligations and the objectives of the Policy, as well as increasing efficiency by enabling use of a single bank account at Dejardins. Holding cash in excess of the insurance limits requires a change to the Policy.

Based on our expectation of the likely size of the invoices in the coming years, meeting the Corporation's obligations requires the ability to hold a maximum of $500,000 USD in cash in US accounts, $250,000 USD of which would be uninsured. Based on our cash flow forecasts of jurisdiction payments and anticipated expenses, including sales tax payments, meeting the Corporation's obligations requires the ability to hold a maximum of $600,000 CAD in Canadian accounts, $500,000 CAD of which would not be insured.

Desjardins does not offer products similar to the CDs and repurchase agreements used to manage funds in the US. The Corporation's staff have investigated whether other Canadian financial institutions offer cash management solutions that would better meet our needs. None has been found that are able to meet the cash flow needs with products that are either insured or assets in the asset allocation policy that are liquid enough to meet cash flow needs. Toronto Dominion provides options for more insurance coverage, including access to a checking account and two linked "term deposit accounts," each of which provides $100,000 of CDIC insurance. Our understanding of the term deposit accounts is that they may require more management than the accounts offered at Desjardins, thus increasing the administrative burden of WCI, Inc. staff. Furthermore, the early withdrawal of funds from term deposit accounts would be subject to a loss of interest earned by the Corporation, which would not occur if the Corporation continued to use its current accounts at Desjardins.

It is common practice for a Custodian to place a temporary hold on deposits made into the Corporation's accounts. Such holds restrict the ability of the Corporation to manage the funds being held. When the Corporation receives large deposits, it may have cash exceeding the Policy's asset allocation requirements. It is impossible for the Corporation to be in compliance with the Policy as it is currently written during the period of time when the funds are placed under a temporary hold by the Custodian.

Recommendation

We recommend that the Policy be amended to allow cash held in the Corporation's interest and non-interest bearing accounts that is not insured, not to exceed $250,000 USD for the Corporation's US account and not to exceed $500,000 CAD for the Corporation's Canadian account. This proposed change to the Policy maintains the objectives of the Policy while allowing a limited amount of uninsured deposits in order to (i) reduce the Corporation's administrative burden and the risk of fraud related to its accounts and (ii) provide the Corporation with the flexibility required to meet its obligations to pay vendors and remit sales tax payments to the tax authorities.

We note that cash is a low-risk asset, less subject to volatility even than the government assets listed in Table 1 of the Policy. The primary risk of uninsured cash is failure of the bank in which the cash is held. To minimize this risk, we further recommend amending section 5 of the Policy to include the requirement, “Cash held within those limits must be held at stable financial institutions with good credit ratings, consistent with the Standard of Care required by this Policy.”

We also recommend that section 5 of the Policy be amended to recognize that funds received through checks, wire transfers or other transfers may be placed on temporary hold by a Custodian, and that the Corporation is considered to be in compliance with the asset allocation requirements while such a hold exists, if without considering the funds being held the asset allocation would be within the ranges in Table 1.

WESTERN CLIMATE INITIATIVE, INCORPORATED
(WCI, INC.)

FUNDS MANAGEMENT POLICY

Adopted October 30, 2012
Revised March 14, 2016
Revised September 29, 2016
Revised April 20, 2017

REVISION HISTORY

Date	Revised By	Description
10/30/2012	Board of Directors	Funds Management Policy adopted
3/14/2016	Board of Directors	Amendment to asset allocation (Table 1) to enable the allocation range for cash to be 0% to 100%.
9/29/2016	Board of Directors	Amendment to asset allocation (Table 1) to allow for cash to be held in accounts insured by the Autorité des marchés financiers (AMF).
4/20/2017	Board of Directors	Amendment to allow the Corporation to hold cash that is not insured up to $250,000 US dollars and $500,000 Canadian dollars and recognize that funds received through checks, wire transfers or other transfers may be placed on temporary hold by a Custodian.

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Western Climate Initiative, Incorporated
Funds Management Policy

1. Purpose

WCI, Inc. was created for the following exclusive purposes: (1) to provide technical and scientific advisory services to States of the United States and Provinces and Territories of Canada in the development and collaborative implementation of their respective greenhouse gas emissions trading programs; (2) to perform any other charitable or scientific function related to the reduction of greenhouse gas emissions or the increase in carbon sequestration; and (3) to perform any other charitable or scientific function related to emissions trading programs or other programs with the purpose of improving environmental quality.

The purpose of this Funds Management Policy is to establish requirements for the management of the Corporation's funds, all of which are program-related assets,[3] so as to support the purposes for which the Corporation was created.

2. Definition of Duties

Board of Directors: The Board has the fiduciary responsibility for the management of the Corporation's funds. The Board shall ensure that appropriate policies governing the management of the Corporation's funds are in place and that they are implemented.

Finance Committee: The Finance Committee shall advise the Board on the management of the Corporation's funds. At least once per year the Finance Committee shall review the Corporation's policies governing the management of the Corporation's funds, and as appropriate recommend to the Board changes in those policies to better serve the Corporation.

Treasurer: The Treasurer shall implement the policies governing the management of the Corporation's funds. The Treasurer shall prepare and keep current a cash flow projection for the Corporation that at a minimum shows anticipated revenues and expenditures for the coming 18 months. After review and approval by the Finance Committee, the Treasurer shall provide the cash flow projection to the Executive Committee at least quarterly.

Custodian: A custodian is a financial institution responsible for safeguarding the financial assets of the Corporation. A custodian is also responsible for executing financial transactions at the direction of duly authorized corporate representatives. A custodian shall provide complete and accurate monthly and annual reports detailing the transactions performed and the assets held on behalf of the Corporation that are in sufficient detail to both manage the funds as required by this policy and to determine whether the requirements of this policy are being met.

[3] As defined in the Uniform Prudent Management of Institutional Funds Act, "program-related assets" means "an asset held by an institution primarily to accomplish a charitable purpose of the institution and not primarily for investment."

Outside Advice and Assistance: If the Board determines that it desires additional expertise for managing the Corporation's funds, it may choose to solicit, or direct the Treasurer or the Executive Director to solicit, advice or assistance of an outside provider.

3. Objectives

The following are the fund management objectives of the Corporation.

1. Funds shall be managed in a manner that complies with all applicable laws.
2. Funds shall be managed in a matter that complies with all requirements specified in funding agreements entered into by the Corporation.
3. Funds shall be managed to support the cash flow requirements of the Corporation as developed by the Treasurer, including expected requirements in Canadian and U.S. dollars.
4. Funds shall be managed to preserve principal to the maximum extent possible.
5. Funds shall be managed to achieve a competitive rate of return (net of fees), consistent with the achievement of the other objectives, in particular recognizing the paramount importance of the preservation of principal.

4. Standard of Care

Funds shall be managed with prudence consistent with all the objectives of this policy. Care shall be taken to avoid accepting risks, for example by matching maturities of securities to cash flow requirements to avoid being required to sell securities at market rates during unfavorable market conditions.

Any potential or actual conflict of interest (as defined in the Corporation's Ethical Guidelines and Conflict of Interest Policy) shall be avoided. In the event that any Board Member, Officer, Committee Member or Employee becomes aware of a potential or actual conflict of interest arising as part of the management of the Corporation's funds, the potential or actual conflict of interest shall be disclosed promptly to the Board as required under the Corporation's Ethical Guidelines and Conflict of Interest Policy.

5. Asset Allocation

Consistent with the objectives above, the financial assets listed in Table 1 are eligible for managing the Corporation's funds[4], within the allocation ranges shown. With the exception of securities fully backed or fully insured by the United States or Canada, no single security shall account for more than five (5) percent of the financial assets of the Corporation. Cash that is not insured must remain below the limits in Table 1 and must be minimized to the extent possible and used solely to support administrative

[4] It is recognized that funds received through checks, wire transfers or other transfers may be placed on temporary hold by a Custodian. The Corporation is considered to be in compliance with the asset allocation requirements while such a hold exists, if without considering the funds being held the asset allocation would be within the ranges in Table 1.

efficiency and cash flow requirements. Cash held within those limits must be held at stable financial institutions with good credit ratings, consistent with the Standard of Care required by this Policy.

6. Monitoring

At least annually, the Treasurer shall prepare and present to the Board an evaluation of the compliance with this policy, including a summary of the Corporation's financial transactions and holdings, consistency with the required asset allocation, and a statement as to the extent to which each of the policy objectives has been achieved.

If directed by the Board, the Audit Committee may undertake an independent evaluation of the compliance with this policy.

Table 1: Asset Allocation

Asset	Allocation Range
Cash in interest-bearing and non-interest-bearing accounts, in amounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC), the Canadian Deposit Insurance Corporation (CDIC) or the Autorité des marchés financiers (AMF).	0% to 100%
Cash in interest-bearing and non-interest-bearing accounts that exceeds the insured amounts.	Up to USD $250,000 Up to CAD $500,000
Certificates of Deposit in amounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Canadian Deposit Insurance Corporation (CDIC).	0% to 75%
United States Treasury Securities	0% to 75%
Government of Canada bonds and treasury bills	0% to 75%
General Obligation Bonds Issued by any of the Participating Jurisdictions	0% to 25%

7. Prohibited Activities

Unless expressly authorized by the Board, the following investments are prohibited:

- Purchasing securities on margin or executing short sales.
- Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
- Purchasing or selling derivative securities for speculation or leverage.

- Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of this policy.

8. Unique Circumstances

The Board recognizes that financial conditions can change, at times unpredictably. The Board retains full authority to interpret or modify this Funds Management Policy in whole or in part at any time. This Funds Management Policy does not and will not serve as the basis for any cause of action or create any rights in any third parties.

9. Acknowledgement

The Board recognizes the importance of adhering to this policy and agrees to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability.