2075 Woodside Road | Redwood City, CA 94061
(650) 260-0005 | peninsulacleanenergy.com

Regular Meeting of the Audit and Finance Committee of the Peninsula Clean Energy Authority (PCEA)
AGENDA

Monday, October 16, 2023
8:30 am

PLEASE NOTE: This meeting will be held in a hybrid format with both in-person and Zoom participation options for members of the public; Board members shall appear in person.

In-Person Meeting Location:
PCEA Lobby, **2075 Woodside Road, Redwood City, CA 94061**
Walker Greenwich, **52 West 13th St, NY 10011**

Zoom, **Virtual Meeting Link:**https://pencleanenergy.zoom.us/j/89514559357
Meeting ID: 895-1455-9357 **Passcode:** 2075 **Phone:** +1 (669) 444-9171

This meeting of the Peninsula Clean Energy Audit and Finance Committee will be held at the Peninsula Clean Energy Lobby: 2075 Woodside Road, Redwood City, CA 94061 and by teleconference pursuant to California Assembly Bill 2449 and the Ralph M. Brown Act, CA Gov't Code. Section 54950, et seq. Members of the Committee are expected to attend the meeting in person and should reach out to Assistant General Counsel for Peninsula Clean Energy, Jennifer Stalzer, with questions or accommodation information (jstalzer@smcgov.org). For information regarding how to participate in the meeting remotely, please refer to the instructions at the end of the agenda. In addition, a video broadcast of the meeting can be viewed at https://www.peninsulacleanenergy.com/Audit and Finance-committee following the meeting.

Public Participation

The PCEA Audit and Finance Committee meeting may be accessed through Zoom online at https://pencleanenergy.zoom.us/j/89514559357. The meeting ID is: 895-1455-9357 and the passcode is: 2075. The meeting may also be accessed via telephone by dialing +1(669) 444-9171. Enter the webinar ID: 895-1455-9357, then press #. (Find your local number: https://pencleanenergy.zoom.us/u/kTlH1Ocod). Peninsula Clean Energy uses best efforts to ensure audio and visual clarity and connectivity. However, it cannot guarantee the connection quality.

Members of the public can also attend this meeting physically at the **Peninsula Clean Energy Lobby** at 2075 Woodside Road, Redwood City, CA 94061.

Written public comments may be emailed to PCEA Board Clerk, Nelly Wogberg (nwogberg@peninsulacleanenergy.com) and such written comments should indicate the specific agenda item on which the member of the public is commenting.

Spoken public comments will be accepted during the meeting in the Board Room(s) or remotely through Zoom at the option of the speaker. Please use the "Raise Your Hand" function in the Zoom platform, or press *6 if you phoned into the meeting, to indicate that you would like to provide comment.

ADA Requests

Individuals who require special assistance or a disability related modification or accommodation to participate in this meeting, or who have a disability and wish to request an alternative format for the meeting, should contact Nelly Wogberg, Board Clerk, by 10:00 a.m. on the day before the meeting at (nwogberg@peninsulacleanenergy.com). Notification in advance of the meeting will enable PCEA to make reasonable arrangements to ensure accessibility to this meeting, the materials related to it, and your ability to comment.

Closed Captioning is available for all PCEA Board meetings. While watching the video broadcast in Zoom, please enable captioning.

CALL TO ORDER / ROLL CALL / APPROVE TELECONFERENCE PARTICIPATION UNDER AB 2449

This item is reserved to approve teleconference participation request for this meeting by Director pursuant to Brown Act revisions of AB 2449 due to an emergency circumstance to be briefly described.

PUBLIC COMMENT

This item is reserved for persons wishing to address the Committee on any PCEA-related matters that are not otherwise on this meeting agenda. Public comments on matters listed on the agenda shall be heard at the time the matter is called. Members of the public who wish to address the Committee are customarily limited to two minutes per speaker. The Committee Chair may increase or decrease the time allotted to each speaker.

ACTION TO SET AGENDA AND TO APPROVE CONSENT AGENDA ITEMS

REGULAR AGENDA

1. Potential Revisions to Cash Management and Investment Management Structure (Discussion)

2. Recommend Approval by the Board of Directors of Revised Investment Policy (Policy 19) (Action)

3. Recommend that the Board of Directors Approve the Audited Financial Statements for Fiscal Year 2022-2023 (Action)

ADJOURNMENT

Public records that relate to any item on the open session agenda are available for public inspection. The records are available at the Peninsula Clean Energy offices or on PCEA Website at: https://www.peninsulacleanenergy.com.

Instructions for Joining a Zoom Meeting via Computer or Phone

Best Practices:

- Please mute your microphone when you are not speaking to minimize audio feedback
- If possible, utilize headphones or ear buds to minimize audio feedback
- If participating via videoconference, audio quality is often better if you use the dial-in option (option 2 below) rather than your computer audio

Options for Joining

- Videoconference with Computer Audio - see Option 1 below
- Videoconference with Phone Call Audio - see Option 2 below
- Calling in via Telephone/Landline - see Option 3 below

Videoconference Options:

Prior to the meeting, we recommend that you install the Zoom Meetings application on your computer by clicking here https://zoom.us/download.

If you want full capabilities for videoconferencing (audio, video, screensharing) you must download the Zoom application.

Option 1 Videoconference with Computer Audio:

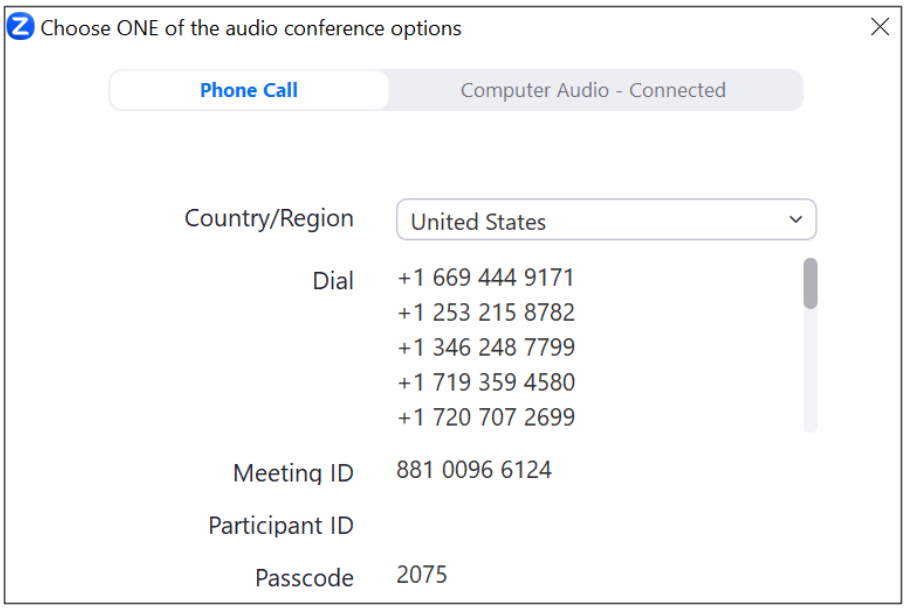
- From your computer, click on the following link that is also included in the meeting calendar invitation: https://pencleanenergy.zoom.us/j/89514559357
- The Zoom application will open on its own or you will be instructed to open Zoom.
- After the application opens, the pop-up screen below will appear asking you to choose ONE of the audio conference options. Click on the Computer Audio option at the top of the pop-up screen.

- Click the blue, "Join with Computer Audio" button.
- In order to enable video, click on "Start Video" in the bottom left-hand corner of the screen. This menu bar is also where you can mute/unmute your audio.

Option 2 Videoconference with Phone Call Audio

- From your computer, click on the following link that is also included in the Meeting Calendar Invitation: https://pencleanenergy.zoom.us/j/89514559357
- The Zoom Application will open on its own or you will be instructed to Open Zoom.

- After the application opens, the pop-up screen below will appear asking you to choose ONE of the audio conference options. Click on the Phone Call option at the top of the pop-up screen.



- Please dial +1 (669) 444-9171.
- You will be instructed to enter the meeting ID: **895-1455-9357 followed by #**.
- You will be instructed to enter in your participant ID. Your participant ID is unique to you and is what connects your phone number to your Zoom account.
- After a few seconds, your phone audio should be connected to the Zoom application on your computer.
- In order to enable video, click on "Start Video" in the bottom left-hand corner of the screen. This menu bar is also where you can mute/unmute your audio.

Audio Only Options:

Please note that if you call in/use the audio only option, you will not be able to see the speakers or any presentation materials in real time.

Option 3: Calling in via Telephone/Landline:

- Please dial +1 (669) 444-9171.
- You will be instructed to enter the meeting ID: **895-1455-9357 followed by #**.
- You will be instructed to enter your **Participant ID** followed by #. If you do not have a participant ID or do not know it, you can press # to stay on the line.
- You will be instructed to enter the meeting passcode **2075 followed by #.**

PENINSULA CLEAN ENERGY AUTHORITY
JPA Board Correspondence

DATE: October 16, 2023
BOARD MEETING DATE: October 16, 2023
VOTE REQUIRED: None

TO: Honorable Peninsula Clean Energy Authority Audit and Finance Committee

FROM: Andy Stern, Interim Chief Financial Officer

SUBJECT: Potential Revisions to Cash Management and Investment Management Structure (Discussion)

RECOMMENDATION

Potential Revisions to Cash Management and Investment Management Structure (Discussion)

BACKGROUND

Peninsula Clean Energy's Board adopted its initial investment policy (Policy #19) at its meeting on October 25, 2018. A revised policy was adopted on December 20, 2018 and again on May 28, 2020. Following the adoption of the revised Investment Policy in May 2020, PCE's investment portfolio was split between two managers: First Republic Investments and PFM Asset Management. All funds managed by both of those firms were, and still are, held by US Bank as third-party custodian. PCE's cash and investment portfolio has grown substantially and exceeded $284 million as of August 31, 2023. Attached is a summary of the holdings by institution as of August 31, 2023.

Early in 2023, coincident with rapid interest rate increases implemented by the Federal Reserve that resulted in substantial turmoil for some financial institutions, PCE's Audit and Finance Committee directed Staff to diversify some of its accumulated cash. Staff quickly opened accounts at Fidelity and Schwab and deposited substantial funds in the Money Market Funds of those institutions. However, those deposits, and the amounts that are now in those holdings, exceed the allowable maximum as directed by the current Investment Policy and by California Government Code.

Staff will present the current status of investment holdings and managers along with potential options including investment management structure, fund allocation and limited investment fund managers to the Audit and Finance committee to solicit input about next steps.

ATTACHMENTS:
Cash and Investments as of August 31, 2023.pdf
CAMP Summary and Introduction.pdf
Chandler Investment Management Services - 092923.pdf

PFM - ESG_Investment Policy Addendum (Signed 07.30.2020).pdf

Cash/Investment Balances – Current Summary

As of August 31, 2023

Institution	Amount	Investment Mix
Fidelity	$71.1 million	Fidelity Institutional Money Market Government Portfolio
First Republic (Operating)	$30.8 million	Cash
Schwab	$57.2 million	Schwab Treasury Obligations Money Fund
US Bank (as Custodian)	$125.2 million	Cash and Fixed Income Portfolio • PFM - $64.7 million • FRB - $60.4 million
Total	$284.3 million	

CALIFORNIA ASSET MANAGEMENT PROGRAM

As of July 31, 2023

Presented By:

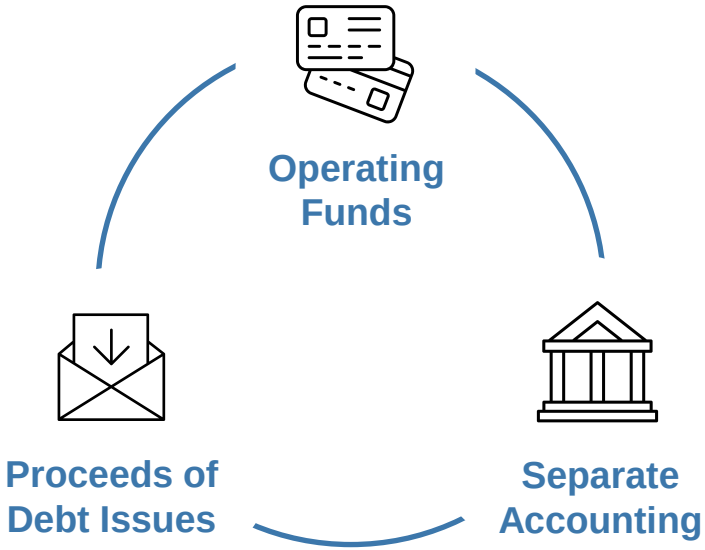
Kyle Tanaka
Assistant Program Administrator
tanakak@pfmam.com
213.500.8694

How do you currently manage your liquidity?

Cash Reserve Portfolio (Pool)

- Rated AAAm by Standard & Poors[1]
- Same-day liquidity (11:00 a.m. PST cut-off)
- Unlimited transactions via wire, ACH, or check
- Online account management
- Option to open multiple sub-accounts
- No minimum investment
- Interest paid monthly
- No additional out of pocket expenses
- Specialized services for bond proceeds

Ideal For:



1. *Please see important disclosures at the end of this presentation.*

CAMP Term

- Rated AAAf by Fitch Ratings[1]
- Opportunities to seek competitive interest rates
- Ladder maturities to meet known cash flow needs
- Select from a wide range of maturity dates
- Plan around your interest income stream
- Diversify your portfolio's maturity structure
- Minimum investment of $1 million
- Maturities range from 60 days to 1 year

Ideal For:

Known Revenue and Expenditure Streams

CAMP Pool and Term investments can work in tandem toward the goal of meeting your daily liquidity and longer-term cash flow needs.

1. *Please see important disclosures at the end of this presentation.*

The Pool's Objective:

To earn a competitive rate of return while preserving principal, providing liquidity and seeking a stable net asset value (NAV) of $1.00.

Pooled Investment Comparison

Features of each pool vary depending on the type of investments selected and should be carefully reviewed before investing.

	CAMP [1] *Established in 1989*	LAIF [2] *Established in 1977*
Valuation of NAV	Daily	Monthly
S&P Rating	AAAm	Not Rated
Weighted Average Maturity	33 Days	251 Days
Interest Payment Frequency	Monthly	Quarterly
Investment Limit	10% of the beneficial interest in the Pool	$75 million per account

1. *Source: CAMP website. As of July 31, 2023. Please see important disclosures at the end of this presentation.*
2. *Source: LAIF website. Weighted average maturity is as of July 31, 2023.*

What Does GASB 79 Compliance Mean for Your Agency?

- Participants in daily NAV pools that follow GASB 79 can use **amortized cost** in their financial reporting and do not need to adjust their investments to fair value.[1]

- This is possible because the pool follows GASB 79 criteria for:
  - Portfolio maturity
  - Shadow pricing (per share price of a portfolio based on the market value of the securities in that portfolio)
  - Credit quality
  - Diversification
  - Liquidity

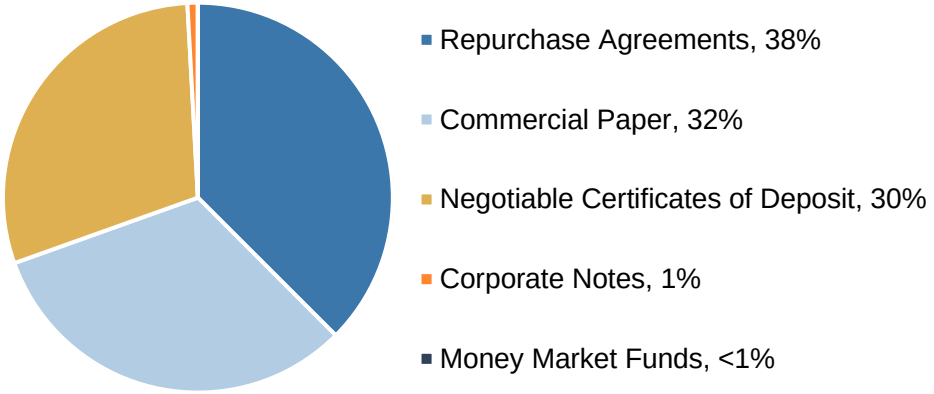
The use of the amortized cost method allows pools to maintain a **stable $1 NAV** per share.

1. *Source: https://www.gasb.org/page/pageContent?pageId=/standards-guidance/pronouncements/summary--statement-no-79.html*

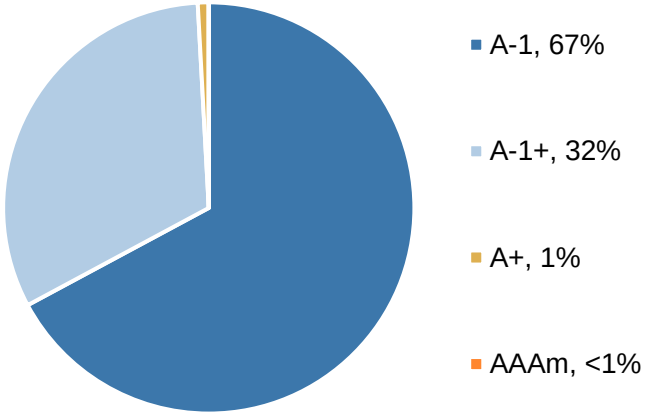
Cash Reserve Portfolio Characteristics as of July 31, 2023

Total Fund Net Assets[1]	$14,112,603,477	**Weighted Average Maturity**	33 Days
Current 7-Day Yield[2]	5.43%	**Net Asset Value per Share**	$1.00

Sector Composition



Credit Quality[3]



Percentages may not total to 100% due to rounding.

1. *Total fund net assets, portfolio holdings valued at amortized cost, trade date based.*
2. *The current seven-day yield, also known as the current annualized yield, represents the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical account with a balance of one share (normally $1.00 per share) over a seven-day base period expressed as a percentage of the value of one share at the beginning of the seven-day period. This resulting net change in account value is then annualized by multiplying it by 365 and dividing the result by 7. Past performance is no guarantee of future results. Yields will fluctuate as market conditions change. The current fund performance may be higher or lower than that cited. Updated monthly.*
3. *Ratings by Standard & Poor's.*

How does CAMP Term work?

Match Investments with Future Cash Needs

Obtain a competitive fixed yield for a specified timeframe.

- Term investments are based on a pool of open-market securities like those invested in the Pool.
- They are coordinated with the amount invested and maturities selected by **YOU**!
- The investment periods range from 60 days to one year and interest is paid upon maturity.
- Term investments are purchased with funds from your CAMP Pool account.
- Proceeds from Term maturities flow back into your Pool account to help ensure they remain invested.

CAMP Term's Offerings

Laddered maturities to meet known cash flow needs

Competitive yields and potentially optimized earnings

Customization around your future outlays

A wide range of maturity dates to choose from

Diversified portfolio maturity structure

Please see important disclosures at the end of this presentation.

Our team is here for you.

CAMPonline.com

CAMP's online account management system offers:

CONVENIENCE

- 24/7 account access
- Document scanning, uploading and sharing
- Electronic access to important documents and files

REPORTING

- Current and historical monthly statements
- Trade notifications
- Ability to perform and track transactions

SECURITY

- Password-protected environment to help mitigate fraud
- Multi-factor authentication
- Custom notifications for account activities

Provides CAMP-specific updates and services:

- Daily yield
- Access to online account management system
- Program enrollment information
- Forms and documents

A Program Governed by Those It Serves

The Board of Trustees comprises experienced government finance directors, treasurers and executive directors.

PRESIDENT
Steve Dial
Deputy Executive Director/CFO
San Joaquin Council of Government

VICE PRESIDENT
Karen Adams, CPA
Treasurer-Tax Collector
Merced County

TREASURER
Lauren Warrem, CPA
Director of Accounting and Finance
San Diego Association of Governments

Duane Wolterstorff, CPA
Director II, Business Services
Modesto City Schools

Jordan Kaufman
Treasurer-Tax Collector
Kern County

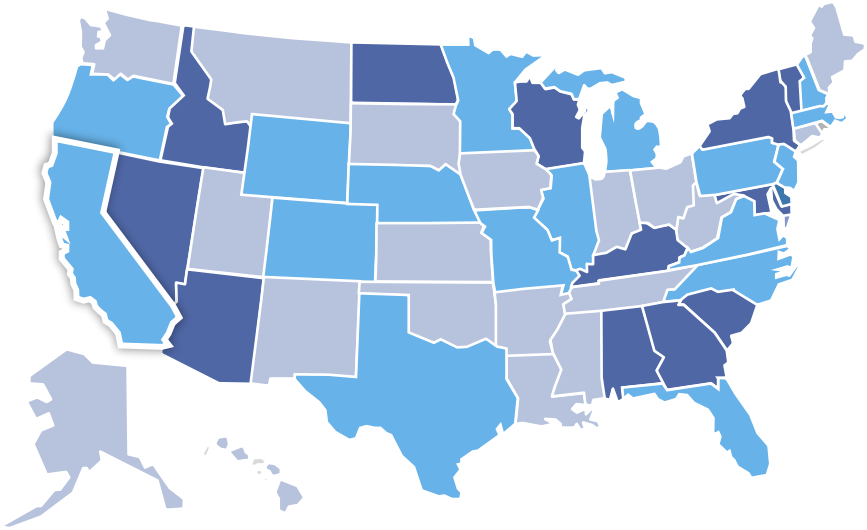
David Persselin
Finance Director/Treasurer
City of Fremont

As of June 30, 2023.

Advised by a Pioneer in the LGIP Industry

- CAMP's investment advisor helped pioneer the first LGIP – a Pennsylvania LGIP in 1981.
- Served by resources supporting:
  - 18 local government investment pools and one SEC-registered investment company whose series or classes are registered in multiple states
  - $52.6 billion in combined total assets from over 5,500 participants in these programs[1]

CAMP was **established in 1989** as a Joint Powers Authority to provide California public agencies with professional investment services.



LGIP and/or Registered Investment Company

Registered Investment Company

1. *Source: PFM Asset Management LLC as of June 30, 2023.*

Dedicated Client Service Team

Jeremy King

Key Account Manager

Rachael Miller

Client Consultant

DeWayne Fields

Client Service Representative

1-800-729-7665 | camp@pfmam.com | CAMPonline.com

Professional Service Providers

The Board of Trustees has contracted for all services with national firms.

SERVICES	PROVIDERS
Program Administrator, Investment Adviser, and Rebate Calculation Agent	PFM Asset Management LLC
Custodian	U.S. Bank National Association
Auditor	Ernst & Young, LLP
Legal Counsel	Nossaman LLP

How to Join CAMP

- There is no minimum initial investment or account balance to invest in the Cash Reserve Portfolio. The minimum to invest in Term is $1 million.
- Public agencies are welcome to invest as either a Participant or as an Investor.
- CAMP's Shareholders consist of 42% Participants and 58% Investors.[1]

	PARTICIPANTS	INVESTORS
Join CAMP	Complete resolution & account application	Complete account application
Earn competitive yield	✓	✓
Same-day transactions	✓	✓
Vote in annual proxy[2]	✓	-
Eligible for board membership	✓	-

1. *As of December 31, 2022.*
2. *Proxy voters decide on CAMP's investment policy and approve board members.*

Disclaimer

CAMP® is a registered trademark and the CAMP logos and designs are trademarks owned by the California Asset Management Trust (Trust). This information is for institutional investor use only, not for further distribution to retail investors, and does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the Trust's investment objectives, risks, charges and expenses before investing in the Trust. This and other information about the Trust is available in the Trust's current Program Guide, which should be read carefully before investing. A copy of the Trust's Program Guide may be obtained by calling 1-800-729-7665 or is available on the Trust's website at www.camponline.com. While the Cash Reserve Portfolio seeks to maintain a stable net asset value of $1.00 per share and the CAMP Term Portfolio seeks to achieve a net asset value of $1.00 per share at the stated maturity, it is possible to lose money investing in the Trust. An investment in the Trust is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the Trust are distributed by ***PFM Fund Distributors, Inc.****, member Financial Industry Regulatory Authority (FINRA) (www.finra.org) and Securities Investor Protection Corporation (SIPC) (www.sipc.org). PFM Fund Distributors, Inc. is an affiliate of PFM Asset Management LLC.*

Disclaimer Continued

Standard & Poor's fund ratings are based on analysis of credit quality, market price exposure, and management. According to Standard & Poor's rating criteria, the AAAm rating signifies excellent safety of investment principal and a superior capacity to maintain a $1.00 per share net asset value. However, it should be understood that the rating is not a "market" rating nor a recommendation to buy, hold or sell the securities.

For a full description on rating methodology, visit Standard & Poor's website (http://www.standardandpoors.com/ratings/en_US/web/guest/home).

The AAAf rating reflects Fitch Ratings' ("Fitch") review of the Term program's investment and credit guidelines, the portfolio's credit quality and diversification, as well as the capabilities of PFM Asset Management LLC as investment adviser. It indicates the highest underlying credit quality (or lowest vulnerability to default). However, it should be understood that this rating is not a "market" rating nor a recommendation to buy, hold or sell the securities. For a full description on rating methodology visit www.fitchratings.com.

Disclaimer Continued

PFM Asset Management LLC ("PFMAM") serves as CAMP's Program Administrator, Investment Adviser and Rebate Calculation Agent. PFMAM specializes in meeting the investment needs of public agencies. PFMAM is registered as an investment adviser with the Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940.

PFMAM is a subsidiary of U.S. Bancorp Asset Management, Inc. "USBAM"). USBAM is a subsidiary of U.S. Bank National Association ("U.S. Bank"). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM.

Proposal for:

Peninsula Clean Energy

INVESTMENT ADVISORY SERVICES

CHANDLER ASSET MANAGEMENT, INC.

7250 Redwood Blvd, Ste 300
Novato, California 94945
Direct: 415-798-5586, Toll free: 800-317-4747
info@chandlerasset.com | chandlerasset.com

CHANDLER ASSET MANAGEMENT

September 29, 2023

Andy Stern
Interim Chief Financial Officer
Peninsula Clean Energy
2075 Woodside Road
Redwood City, CA 94061

RE: Request for Proposal for Investment Management and Advisory Services
Chandler Asset Management, Inc.

Dear Mr. Stern,

On behalf of *Chandler Asset Management, Inc.* ("Chandler"), we are pleased to submit our firm's proposal and present our qualifications to provide investment management and advisory services for **Peninsula Clean Energy ("PCE").**

Chandler is headquartered in San Diego, California and has been providing investment advisory and management services to local governments for more than three decades. As of June 30, 2023, we have **$33.5 billion in client assets under management**, including $23 billion held by institutional clients in our home state. In addition to our headquarters, we have local offices near PCE in Marin County and Oakland. We would be privileged to collaborate with your team as a local, neighboring partner to develop a tailored investment program that serves PCE's unique investment goals, objectives, and challenges.

Our investment team helps public agencies fulfill their fiduciary duty to their constituents. We provide prudent investment solutions designed to address the financial needs of local governments subject to California Government Code, including community choice aggregators like PCE. Your team will benefit from direct access to our investment team members, who are fully committed to meeting and exceeding your expectations. We will be proactive in our communication with you and your staff and look forward to attending frequent meetings with PCE's finance staff and Board.

As the firm's Chief Executive Officer, I am authorized to bind the firm and to act in this capacity, as well as to confirm our intent to fulfill all aspects of our *Scope of Services*. I certify that the information provided in our proposal is accurate, firm, and irrevocable, and shall be valid for a period of at least ninety (90) days from September 29, 2023.

We appreciate your consideration, and we look forward to discussing our qualifications with you. If you have any questions, please do not hesitate to contact **Carlos Oblites**, *Senior Portfolio Strategist* directly at (415) 798-5586, toll free (800) 317-4747, or via email at coblites@chandlerasset.com.

Sincerely,

CHANDLER ASSET MANAGEMENT, INC.

Nicole Dragoo, JD, IACCP
CEO

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APPENDICES

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Appendix B *Professional Biographies*

Appendix C *ACORD Certificate of Liability Insurance*

Appendix D *Important Disclosures*

Appendix E *Sample Client Monthly Statement, Quarterly Report, and GASB 40 and 72 Reports*

About Chandler Asset Management, Inc.

Chandler Asset Management, Inc. ("Chandler") is an SEC-registered investment adviser focused on managing high-quality fixed-income portfolios for public agencies that share common objectives of safety, liquidity, and optimized investment returns over a market cycle. We are honored to be stewards of the principal our clients entrust to us and have, for more than three decades, performed our fiduciary duty with discipline and care. Our risk control practices and relationship-based approach have led to our firm's solid growth, and we manage **$33.5 billion in client assets** as of June 30, 2023.

Chandler brings multiple distinctive benefits to all aspects of our relationships with clients like Peninsula Clean Energy ("PCE") beyond investment management capabilities, including:

Experience. We've been helping public agencies fulfill their fiduciary duties to stakeholders for more than 35 years. Our experience, expertise, and repeatable investment process have consistently helped clients achieve their goals. Chandler's investment team has decades of experience managing funds for local governments subject to California Government Code like cities, counties, special districts, and community choice aggregators just like PCE.

California Headquarters. We have a long history of helping California public agencies with their investment programs. We're headquartered in San Diego, CA and maintain two regional offices in the Bay Area, where our services to PCE will be coordinated. We currently work with PCE member agencies and are active in Bay Area public finance.

Attentive Service. Chandler has invested considerably in professional talent and systems to ensure optimal client service and investment results, and we have the resources necessary to effectively manage PCE's investment program. Service and attention to detail is prioritized as second only to the consistent results we offer our clients. Chandler operates as a seamless extension of our clients' teams, working with staff and other stakeholders to achieve desired outcomes for communities[1].

94% Five-year Client Retention

Personalization. We will make sure PCE is not just a number on an account. Staff will have direct access to lead portfolio managers, senior investment professionals, and the backup investment management team, who are responsible for making the decisions for their portfolio. You will speak directly and meet frequently with a senior member of the firm, not with dual-role representatives or intermediaries. Your portfolio manager will not only have a deep understanding of your investment portfolio, but also know where it fits within PCE's overall financial structure and future objectives.

Independence. Chandler does not operate any lines of business outside of investment management services. We do not have any competing lines of business such as local government investment pools, banking and trustee services, brokerage, underwriting, or municipal advisory services. We will build investment strategies for PCE that take into consideration your goals and values, such as avoiding fossil companies in your portfolios. Our narrow focus on investment management services ensures our ability to fulfill our fiduciary duty.

[1] *Past performance is not indicative of future results.*

Fixed-Income Investment Expertise Focused on California Public Agencies

Chandler is an SEC-registered investment adviser and a 100% employee-owned California corporation with a long-standing commitment and proven record of performance to California public agencies.

We are proud of the depth and strength of the relationships we've cultivated in our home state, where we manage more than $23 billion for institutional clients as of June 30, 2023. Nationwide, we work with nearly 200 public agencies, including special districts and joint powers authorities, and we believe that this experience has given us a unique perspective on helping public agencies achieve their financial goals. Our extensive resources, proposed service team, personalized approach to relationship management, and our strong presence in the markets will ensure that PCE's funds are prudently managed.

PCE's engagement will be led by **Carlos Oblites,** *Senior Portfolio Strategist* and **Neil Murthy,** *Senior Relationship Manager*, located in our Marin County and Oakland offices. Chandler has been a California-headquartered firm since our inception, and all investment management, operations, compliance, and executive functions will be performed at the firm's corporate headquarters in Southern California.

Carlos Oblites
Senior Portfolio Strategist
7250 Redwood Boulevard, Suite 300
Novato, California 94945
Direct: 415.798.5586
coblites@chandlerasset.com

Aneil (Neil) Murthy
Senior Relationship Manager
1901 Harrison St, Suite 1140
Oakland, California 94612
Direct: 858.245.4869
amurthy@chandlerasset.com

Chandler Asset Management
Toll Free: 800.317.4747
info@chandlerasset.com
www.chandlerasset.com

Scope of Services

Chandler Asset Management is pleased to offer PCE the following services:

- **Investment Policy Review.** At the inception of the relationship, Chandler's investment professionals will conduct an extensive review of PCE's investment policy to ensure it encompasses the latest requirements of the California Government Code, as well as industry best practices. Thereafter, we will perform an annual review of relevant Code changes and any of PCE's changing objectives and cash flow needs. We understand that PCE staff is preparing to present investment policy updates to the Board. Along with this proposal we have provided additional recommendations that will aid PCE in mitigating investment risk and overlaying effective governance over its investment program.
- **Ensure Liquidity Needs.** We recognize that liquidity is a key priority for community choice aggregators to ensure funds are available for power purchases in a volatile energy market. Our team will coordinate with PCE staff to understand liquidity needs and structure investment strategies to ensure sufficient funds are accessible to meet customer demands.
- **Develop a Strategy Designed to Meet Objectives.** Chandler will identify and implement a customized investment strategy that addresses PCE's objectives of safety and liquidity in the context of its unique mission to provide clean energy. The strategy will be designed around PCE's risk parameters and return requirements. We will frequently consult with PCE staff to ensure the strategy supports your financial goals and objectives.
- **Establish an Appropriate Performance Benchmark.** We will identify a benchmark to appropriately measure risk, provide a proxy for market performance, and measure portfolio outcomes. The benchmark will be similar to the portfolio with regard to duration and risk.
- **Provide Comprehensive Investment Management**. Chandler will provide full-time investment management services on a fiduciary basis for PCE and support staff by identifying investment opportunities, enhancing diversification, mitigating credit and market risk, and monitoring investment opportunities to ensure safety[2], meet liquidity needs, and enhance return.
- **Provide Credit Analysis of Investment Instruments in Portfolio.** Chandler's rigorous process for reviewing credit securities for inclusion in client portfolios is designed to identify stable and improving credits while detecting weak or deteriorating credits. We review security issuers weekly. Chandler's Credit Committee conducts fundamental, macroeconomic, industry-wide, and issuer-specific analysis, resulting in a consistently updated *Approved Issuer List* of securities. We will ensure your staff are informed of market conditions or significant developments in PCE's portfolio.
- **Best Execution, Settlement, and Documentation**. Chandler executes approved securities transactions on a transparent and highly competitive basis, in accordance with our commitment to best execution, and we document the quotes received. All trades will be settled at the third-party custodian bank using delivery-versus-payment (DVP) procedures. Daily trade tickets are availalable on the *Chandler Client Portal*.
- **Broker-Dealer Due Diligence.** Chandler's investment team maintains an active, productive relationship with the broker-dealer community to promote an ongoing flow of market information and to execute trades for our clients at competitive prices. This advantage provides our clients with market access that they would not be able to achieve on their own. We review the credentials and regulatory background of each broker-dealer firm and their employees, with whom we trade using FINRA's online BrokerCheck System.

--Continued on next page—

[2] *While our conservative investment approach promotes safety, investing in securities carries varying degrees of risk and we cannot guarantee safety of principal.*

- **Portfolio Accounting and Reporting.** Chandler will produce PCE's reports on the following schedule:
  - **Monthly reports** that include a management summary of portfolio characteristics and performance, as well as full accounting details. They are available no later than the third business day following month end.
  - **Quarterly reports**, designed to facilitate discussion between our investment professionals and PCE's staff.
  - **Annual reports** that satisfy GASB 40 and 72 requirements to facilitate PCE's year-end reporting. Reports will be prepared in accordance with state law and the Governmental Accounting Standards Board (GASB) and are compiled to meet your specific needs.

  Performance for your portfolio will be calculated and reported in compliance with the CFA Institute's Global Investment Performance Standards (GIPS®).

  Chandler recently upgraded the software powering our client portal with a sophisticated investment reporting and accounting platform, Clearwater Analytics, that will allow PCE to generate on-demand, customized reports. There is no extra cost associated with use of the portal.
- **Reconciliation with Custodian Records and Settlement.** Chandler's operations team performs daily reconciliations of cash balances and positions in all accounts and invests in best-in-class tools and technology to simplify investment reporting and compliance.
- **Compliance Monitoring.** At the outset of our engagement, Chandler's compliance personnel will hard-code each specific element of the investment policy and any additional client directives into Bloomberg AIM, Chandler's live compliance system for the portfolio and monitor your portfolio to ensure compliance with Code and PCE's investment policy.
- **Online Access.** Chandler's *client portal* is a custom web-based reporting tool that provides clients with secure access to a variety of digital files, including customized reports, trade tickets and documents, as well as the ability to download daily transactions and holdings, historical monthly statements, and quarterly reports. Reports can be downloaded and easily integrated into your internal reporting systems, aggregating data for effective analysis and operational efficiency.
- **Serve as a General Resource for PCE Staff.** We will keep you fully informed of investment strategies, market conditions, and developments that could affect you from a risk, opportunity, operational and/or statutory perspective. We will meet with you quarterly (in person or in a secure virtual setting), and our investment professionals will be available by phone during business hours. Chandler's professionals excel at transparent communication and can assist with translating the details of the entire investment program efficiently and effectively to PCE's finance staff, Board of Directors, and other stakeholders.

Proposed Fees

Chandler is pleased to provide comprehensive investment advisory services in accordance with the following fee schedule:

Proposed Fee Schedule for PCE

Assets Under Management	Annual Asset Management Fee
First $25 million	0.10 of 1% (10 basis points)
Next $25 million	0.08 of 1% (8 basis points)
Next $50 million	0.06 of 1% (6 basis points)
Over $100 million	0.04 of 1% (4 basis points)

Since the firm calculates fees based on the average balance of assets under our direct management (market value including accrued interest), fees in dollars will fluctuate (higher or lower) based on the actual portfolio value. Fees are charged monthly in arrears and can be debited directly from your third-party custody account. Chandler does not charge fees on funds held in vehicles not directly under our management, including Local Government Investment Pools and internally managed liquid funds.

Our proposed fee schedule is all-inclusive for the services that Chandler provides, including technological resources, onboarding and implementation, online access to the *Chandler Client Portal*, comprehensive reporting, meetings, and educational offerings for your staff, as well as the investment management and treasury management support services described herein in Chandler's proposal.

Our fee schedule *does not* include charges that PCE would incur for third-party custodial services, as we are not a provider of those services.

Chandler does not anticipate any additional fees besides those listed in the fees and compensation section above. There are no startup costs, management costs, transaction fees, or any additional software or services required to implement Chandler's full suite of services as the investment adviser.

Experience

Kay Chandler founded our firm in 1988 based on her decade-long experience serving as an Investment Officer for the County of San Diego and the City of San Diego. Ms. Chandler recognized that public entities with limited time and resources could benefit from external professional expertise and technological resources to help manage their investment programs.

In 1991, Martin Cassell, Ms. Chandler's successor on the investment staff of the City of San Diego, joined the firm and served as Chandler's CEO for 32 years before becoming CFO in 2023. Nicole Dragoo became the company's new CEO effective January 1, 2023. Today, Chandler remains just as committed to our principles of conservative fixed-income management, and we continue to evolve in response to our clients' needs and to the public investment climate.

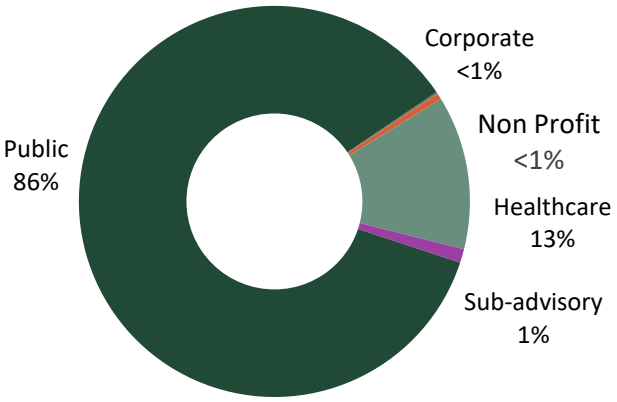
We work as fiduciaries with clients on every aspect of their investment programs, including investment policy development and review, cash flow analysis and forecasting, and portfolio optimization through the careful control of risk. We tailor investment strategies to meet each client's risk and return requirements, provide comprehensive investment reporting to save staff time and conduct education and training for staff enrichment.

Chandler Client Types and Total Firm Assets Under Management

As of June 30, 2023

Client Type	# of Accounts	AUM ($MM)*
Public Sector	414	$28,841
Corporate	14	$52
Healthcare	37	$4,073
Non-profit	9	$30
Sub-Advisory	368	$234
Other*	11	$38
Total	**872**	**$33,366**

**Other includes Defined Contribution Plan and Higher Education assets. Chandler assets under management as of 06/30/2023.*



Key California Relationships

City of Alameda	*California Earthquake Authority*	*Lake County*	*San Benito County*
Alameda County Water District	*CJPRMA*	***Marin Clean Energy***	*Santa Clara County*
Alpine County	*CSJVRMA*	*Mendocino County*	*San Diego County**
Amador County	*City of Cupertino*	*City of Merced*	***City of San Mateo***
City of American Canyon	*Town of Danville*	*City of Milpitas*	***City of South San Francisco***
City of Atwater	*City of Dublin*	*City of Monterey*	*City of Sunnyvale*
BCJPIA	*City of Elk Grove*	*City of Mountain View*	*City of Tracy*
Big Independent Cities Excess Pool	*City of Fairfield*	*City of Pittsburg*	*Ventura County**
Calaveras County	*First 5 Santa Clara County*	*City of Pleasant Hill*	*City of West Sacramento*

*The list includes California clients as of 06/30/2023 listed alphabetically and only includes clients that have given permission to be listed. It is not known whether the clients listed approve or disapprove of Chandler Asset Management and the investment advisory services provided. Includes discretionary and non-discretionary relationships. *Denotes consulting relationship only.*

The above clients' accounts include treasury funds, operating cash and reserves, bond-related funds, public risk pool insurance funds, and retiree medical funds, each separately managed to fulfill its specific objectives within its own risk profile. We propose customizing PCE's portfolio to meet your specific financial and investment goals, and we are excited for the opportunity to help you achieve your goals by providing the same high levels of diligence, client service, and investment expertise.

The firm acknowledges its fiduciary duty to its clients. Please see our *Form ADV, Parts 1 and 2* in the **Appendix**.

References

Client	Contact Information	Dates of Service	AUM*	Type of Account(s)
City of South San Francisco 400 Grand Ave South San Francisco, CA 94080	Karen Chang *Finance Director* Ph: (650) 829-6614 karen.chang@ssf.net	2009-present	$232 MM	Discretionary investment management of treasury funds
City of San Mateo City of San Mateo 330 West 20th Ave San Mateo, CA 94403	Karen Huang *Deputy Director of Finance* Ph: (650) 522-7110 khuang@cityofsanmateo.org	2020-present	$245 MM	Discretionary investment management of treasury funds
City of Cupertino 10300 Torre Ave Cupertino, CA 95014	Kristina Alfaro *Director of Administrative Services* Ph: (408) 777-3200 kristinaa@cupertino.org	2018-present	$150M	Discretionary investment management of treasury funds

**Chandler assets under management as of 06/30/2023. This list only includes clients who have given permission to be listed. It is not known whether the listed clients approve or disapprove of Chandler, or the services provided.*

- End -

Peninsula Clean Energy (PCE)
Investment Policy Addendum – Effective August 1, 2020

ESG Investment Criteria

ESG investing is the process of incorporating the analysis of non-financial environmental, social, and governance factors into investment decisions alongside more traditional financial criteria. As set forth in this Investment Policy Addendum, it is PCE's objective to integrate environmental, social, and governance ("ESG") factors into investment decisions for its investment portfolio to the extent practical and possible. In order to achieve this objective, PCE will apply the ESG Investment Criteria as defined below to the Acceptable Investment Instruments as defined in PCE's Investment Policy.

The ESG investment criteria will be based on the ESG risk ratings, industry and sub-industry definitions, and subindustry rankings provided by Sustainalytics as of the most recent prior-month end date. The ESG Investment Criteria will be reviewed annually by PCE's Treasurer and Chief Financial Officer.

ESG Investment Criteria	
Criteria #1: Industry Exclusions *Based on Sustainalytics industry definitions*	(1) Energy Services (2) Oil & Gas Producers (3) Refiners & Pipelines
Criteria #2: ESG Environment Risk Limit *Based on Sustainalytics ESG risk ratings*	The environmental risk component of an issuer's ESG Risk Rating must be no greater than (<=) 7.5 points
Criteria #3: ESG Risk Rating Limit *Based on Sustainalytics ESG risk ratings*	The issuer ESG Risk Rating must be no greater than (<) 30
ESG Risk Rating Limit Exception: **Top ESG Performers Within Industry Peer Groups**	If Criteria #1 and #2 are satisfied, an issuer is eligible if the issuer's ESG Risk Rating is between 30-39.99 and the issuer's subindustry ranking is in the top 25th percentile
Acceptable Investments subject to the ESG Investment Criteria	Commercial Paper Negotiable Certificates of Deposit Bankers' Acceptances Corporate obligations Medium-Term Notes

If a previously purchased investment no longer satisfies the ESG Investment Criteria set forth herein, PCE will continue to hold that investment unless PCE directs its investment advisor to sell the investment.

Approved by:

Date: July 30, 2020

Andrew Stern, Treasurer & Chief Financial Officer

PENINSULA CLEAN ENERGY

PENINSULA CLEAN ENERGY AUTHORITY
JPA Board Correspondence

DATE: October 16, 2023
BOARD MEETING DATE: October 16, 2023
VOTE REQUIRED: Majority Vote

TO: Honorable Peninsula Clean Energy Authority Audit and Finance Committee

FROM: Andy Stern, Interim Chief Financial Officer

SUBJECT: Recommend Approval by the Board of Directors of Revised Investment Policy (Policy 19) (Action)

RECOMMENDATION

Recommend Approval by the Board of Directors of Revised Investment Policy (Policy 19)

BACKGROUND

PCE's Board adopted its initial investment policy (Policy #19) at its meeting on October 25, 2018. A revised policy was adopted on December 20, 2018 and again on May 28, 2020 which is the current version in effect. Following the adoption of the revised Investment Policy in May 2020, PCE's investment portfolio was split between two managers: First Republic Investments and PFM Asset Management. All funds managed by both of those firms were, and still are, held by US Bank as third-party custodian. PCE's cash and investment portfolio has grown substantially and exceeded $284 million as of August 31, 2023.

Early in 2023, a series of rapid interest rate increases implemented by the Federal Reserve resulted in substantial turmoil for some financial institutions, The Audit and Finance Committee directed Staff to diversify some of its accumulated excess cash that was held at First Republic Bank and Wilmington Trust. Staff quickly opened accounts at Fidelity and Schwab and deposited substantial funds in the Money Market Funds of those institutions. However, those deposits, and the amounts that are now in those holdings, exceeds the allowable maximum as directed by the current Investment Policy and by California Government Code.

Based on consultation with multiple money managers who specialize in assisting municipal entities, the proposed revisions to Policy #19 are summarized below:

Senate Bill 1489, also known as the Local Government Omnibus Act of 2022, went into effective January 1, 2023 and made a number of changes to Code, including several that impact the investment of public funds and the reporting practices of public agencies. Changes made to Code section 53601, the section of Code that governs the investment of public funds, include the addition of language stating that an investment's term or remaining maturity shall be measured from the settlement date to final maturity, and, that a security purchased in

accordance with Code section 53601 shall not have a forward settlement date exceeding 45 days from the time of investment. Previously, the Code was silent on both items.

- To address the new Code language regarding forward settlement, the new Code language has been added to the proposed Policy's Acceptable Investment Instruments section.
- To address the new Code language regarding calculating a security's term to maturity, the new Code language has been added to the proposed Policy's Maturity Limit section.

SB 1489 also modified Code section 53646 and its reporting requirements. Per Code, producing a quarterly report is optional for public agencies. However, should an agency choose to produce a quarterly report, certain requirements must be met. One of those requirements is to produce the report within thirty (30) days following the end of the period covered by the report. With SB 1489, that time has been extended to forty-five (45) days.

- The proposed Policy's Reporting section has been edited to address the Code change

Senate Bill 998, which took effect on January 1, 2021, made a number of amendments to certain sections of the Code which govern the investment of public funds. In response to the changes, the proposed Policy's Acceptable Investment Instruments section has been edited to delete the Policy's commercial paper language regarding the issuing corporation's outstanding paper, as this language was removed from the Code.

Based on the recommendation of multiple investment managers, it is also proposed that two additional investment types be added to the Policy 19's Acceptable Investment Instruments section.

- Add language to allow for investment in supranationals (Code §53601(q)), and
- Add language to allow for investment in asset-backed securities (Code §53601(o)).

For the above two types of instruments, the proposed language in the Policy matches Code language, except that there is a 5% issuer limit on these investment types where Code has no issuer limit. Allowing these additional investment types can improve diversification and offer various benefits to the portfolio including return enhancement and diversification.

It is believed that making the above changes to the Policy are appropriate in the process of safely and effectively managing PCE's portfolio.

ATTACHMENTS:
Policy 19 - Investments - October 2023 (Redline).docx
Policy 19 - Investments - October 2023 (Clean).docx
PFM Memo Summarizing Recommendations.pdf

RESOLUTION NO. _____

PENINSULA CLEAN ENERGY AUTHORITY, COUNTY OF SAN MATEO, STATE OF CALIFORNIA

RECOMMEND APPROVAL BY THE BOARD OF DIRECTORS OF REVISED INVESTMENT POLICY (POLICY 19) (ACTION)

RESOLVED, by the Audit and Finance Committee of Peninsula Clean Energy Authority (PCEA) of the County of San Mateo, State of California, that

WHEREAS, the Board of PCEA initially approved the Investment Policy (Policy #19) on October 25, 2018, and

WHEREAS, the Board of PCEA approved a revised version of the Investment Policy (Policy #19) on December 20, 2018, and

WHEREAS, the Board of PCEA approved a revised version of the Investment Policy (Policy #19) on May 28, 2020, and

WHEREAS, Policy #19 requires that the policy be reviewed at least annually to ensure its consistency with California Government Code and to confirm that it meets the overall objectives of preservation of principal, sufficient liquidity, and a market return, and

WHEREAS, PCEA Staff met with the Audit and Finance Committee on September 11, 2023 to review recommended changes to Policy #19 including the addition of some investment options and other modifications including to be in conformance with the California Government Code, and

WHEREAS, the Audit and Finance Committee directed Staff at its meeting on September 11, 2023 to incorporate the recommended changes into a proposed revised Policy #19, and

WHEREAS, the Audit and Finance Committee reviewed the proposed and revised Investment Policy at its meeting on October 16, 2023.

NOW, THEREFORE, IT IS HEREBY DETERMINED AND ORDERED that the Audit and Finance Committee recommend that the Board approve and adopt the revised Investment Policy.

Policy Number: 19
Board Adoption: October 25, 2018
Revised: May 28, 2020
Revised: October 26, 2023

Investment Policy

Overview and Purpose

This statement contains guidelines for the prudent investment of cash balances held by Peninsula Clean Energy (PCE) in accordance with Government Code sections 53600, et. seq. The overarching goal of PCE's Investment Policy is to protect PCE's pooled cash while producing a reasonable rate of return on investments.

1. **Scope**
   The Investment Policy applies to all funds and investment activities of PCE. This does not apply to the investment of bond proceeds, which are governed by the appropriate bond documents. This does not apply to any pension or other post-employment benefit funds held in a trust, as PCE does not have any such funds at this time and has no plans to have such funds.

2. **Prudence**
   The standard of prudence to be used by investment officials will be the "prudent investor" standard, which states that, "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

3. **Objectives**
   The primary objectives, in priority order, of the investment activities of PCE are:

   a. SAFETY – Preservation of principal is the foremost objective of Peninsula Clean Energy.
   b. LIQUIDITY – PCE's portfolio will remain sufficiently liquid to enable PCE to meet its cash flow requirements. It is important that the portfolio contain investments which provide the ability of being easily sold at any time with minimal risk of loss of principal or interest.
   c. RETURN – PCE's portfolio will be designed to attain a market rate of return through economic cycles consistent with the constraints imposed by its safety and liquidity objectives.

4. **Delegation of Investment Authority**
   Pursuant to Government Code Section 53607, the Treasurer (and his/her designee, if necessary) is authorized to invest and reinvest money of PCE, to sell or exchange securities

so purchased, and to deposit such securities for safekeeping in accordance with and subject to this Investment Policy.

PCE may engage the support services of outside investment advisors in regard to its investment program, so long as these services are likely to produce a net financial advantage or necessary financial protection of PCE's financial resources. Outside investment advisors must be approved by the Chief Executive Officer, the Treasurer and the Board of Directors. It is PCE's intention to use the services of outside investment advisors to manage PCE's investment program. PCE will be responsible for managing the investment advisors.

5. Investment Procedures

The Chief Financial Officer and Chief Executive Officer will recommend investment procedures for the operation of PCE's investment program for approval by PCE's Board of Directors.

6. Ethics and Conflicts of Interest

Officers and employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

7. Authorized Financial Dealers and Institutions

The purchase by PCE of any investment other than those purchased directly from the issuer, will be purchased either from an institution licensed by the State as a broker- dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

The Chief Financial Officer is responsible for the evaluation of all institutions that wish to do business with PCE, to determine if they are adequately capitalized, staffed by qualified investment professionals, and agree to abide by the conditions set forth in PCE's Investment Policy and any other guidelines that may be provided. This will be done annually by having the financial institutions:

a. Provide written notification that they have read, and will abide by, PCE's Investment Policy.
b. Submit their most recent audited Financial Statements within 120 days of the institution's fiscal year end.

If PCE has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of PCE.

Purchase and sale of securities will be made on the basis of best execution.

8. Acceptable Investment Instruments

Where this section specifies a percentage limitation for a particular security type or issuer, that percentage is applicable only on the date of purchase and shall be calculated on the basis of market value. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the investment. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment.

PCE will diversify its investments by security type and institution. With the exception of U.S. Treasury and federal agency securities, supranational obligations, investment pools and money market funds, no more than 5% of market value of PCE's portfolio will be invested in a single issuer regardless of sector type.

Acceptable investments authorized for purchase on behalf of PCE are:

a. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest.

b. **Federal agency or United States government-sponsored enterprise obligations**, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

c. **Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency that is rated in a rating category of "A" or its equivalent or better by a nationally recognized statistical-rating organization (NRSRO). Purchases of the obligations described in this subdivision and in subdivision 4 (registered treasury notes or bonds of any of the other 49 states in addition to California) collectively may not exceed 20% of PCE's portfolio.

d. **Registered treasury notes or bonds of any of the other 49 states in addition to California**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of these states that is rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of the obligations described in this subdivision and in subdivision 3 (obligations of the State of California or any local agency within the state)

collectively may not exceed 20% of PCE's portfolio.

e. **Commercial Paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper must meet all of the following conditions in either paragraph a or paragraph b:

   i. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars ($500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

   ii. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

   Eligible commercial paper will have a maximum maturity of 270 days or fewer. No more than 20% of PCE's portfolio may be invested in commercial paper.

f. **Negotiable Certificates of Deposit** issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state- licensed branch of a foreign bank. Eligible negotiable certificates of deposit (negotiable CDs) shall be rated in a rating category of "A" for long-term, "A-1" for short-term, their equivalents, or better by an NRSRO. No more than 20% of PCE's portfolio may be invested in negotiable CDs.

g. **Demand Deposits** – Collateralized

h. **Passbook Savings Accounts** – Collateralized

i. **Shares of beneficial interest issued by diversified management companies** that are **money market funds** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment, money market funds must be managed with the goal of maintaining a stable net asset value (NAV) per share of $1.00.

   Further, to be eligible for investment pursuant to this subdivision these companies (money market funds) will either: (i) attain the highest ranking or the highest letter and numerical rating provided by at least two NRSROs or (ii) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with

not less than five years of experience managing money market mutual funds and with assets under management in excess of $500,000,000.

It is possible that a money market fund that is managed with the goal of maintaining a stable NAV per share of $1.00 may be unable to maintain a NAV of $1.00 per share due to market conditions or other factors. In such instances, the Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the fund(s), subject to any restraints imposed by the money market fund(s).

No more than 20% of PCE's investment portfolio may be invested in money market funds or mutual funds combined. Further, no more than 10% of PCE's investment portfolio may be invested in any one money market fund. A money market fund's holding may not include auction rate securities or other securities that are not allowed under PCE's investment policy.

j. **Repurchase Agreements**. Overnight Repurchase Agreements shall be used solely as short-term investments not to exceed 3 days.

k. **Local Agency Investment Fund (State Pool)** - An investment pool managed by the State Treasurer. PCE can invest up to the maximum amount permitted by the State Treasurer.

l. **San Mateo County Pool** - As authorized by Government Code Section 53684.

m. **Local Government Investment Pools (LGIPs)** - Shares of beneficial interest issued by a joint powers authority (Local Government Investment Pools or "Pool") organized pursuant to Government Code Section 6509.7 that invest in the securities and obligations authorized in subdivisions (a) to (r) of California Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the Joint Powers Authority. The Pool will be rated in a rating category "AAA" or its equivalent by a NRSRO. To be eligible under this section, the shares will maintain a stable net asset value (NAV) and the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

    i. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
    ii. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) Government Code Section 53601, inclusive.
    iii. The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

n. **Bankers' acceptances** otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40% of PCE's portfolio that may be invested pursuant to this section. However, no more than 30% of PCE's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

o. **Medium-term notes**, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, are issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30% of PCE's portfolio that may be invested pursuant to this section.

p. **Asset-Backed securities**, a mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond not defined in sections 8a and 8b above. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20% of PCE's portfolio that may be invested pursuant to this section.

q. **Supranationals**, United States dollar-denominated senior, unsecured, unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30% PCE's portfolio that may be invested pursuant to this section.

9. Collateralization

Section 53600 et. seq. of the State of California Government Code outlines the collateral requirements for public funds on deposit above the FDIC insurance amounts. These collateral requirements apply to both active bank deposits (checking and savings accounts) and inactive bank deposits (non-negotiable certificates of deposit).

10. Investment Pools

The State Pool, San Mateo County Pool, and LGIPs that PCE is authorized to invest in, may invest in Government Code authorized investments that are not approved for direct purchase by the PCE's Board of Directors. These pools shall be reviewed and considered by PCE's

Treasurer on a regular basis and prior to PCE's investment in them. The pools provide a current investment policy and monthly reports for review by the Chief Financial Officer and Treasurer. PCE is authorized to invest in these pools provided that they are in conformance with their investment policies.

11. **Maturity Limit**

To the extent possible, PCE will attempt to match its investments with anticipated cash flow requirements. Investments will be purchased with the intent to hold until maturity. However, this will not preclude the sale of securities prior to maturity in order to reposition the portfolio's duration, credit quality, to meet unanticipated cash flow requirements, and/or to enhance the rate of return. State law requires that the maturity of any given instrument should not exceed five years unless specifically approved by PCE Board of Directors at least three months before the investment is made. For purposes of compliance with this Investment Policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity.

12. **Internal Control**

The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of PCE are protected from loss, theft or misuse. The PCE Chief Financial Officer and Treasurer or his/her designee shall arrange for an annual audit by an external CPA firm in compliance with the requirements of state law and generally accepted accounting principles as pronounced by the GASB (Governmental Accounting Standards Board.) As part of the audit, investment transactions will be tested. The annual audit will be an integral part, but not the sole part of management's program of monitoring internal controls.

13. **Custody of Securities**

All securities owned by PCE except time deposits and securities used as collateral for repurchase agreements, will be kept in safekeeping by a third-party bank's trust department, acting as an agent for PCE under the terms of a custody agreement executed by the bank and PCE. All securities shall be held in PCE's name.

All securities will be received and delivered using standard delivery versus payment procedures.

14. **Performance Standards**

PCE's portfolio shall be structured to achieve a market-average rate of return through various economic cycles, commensurate with the investment risk constraints and the cash flow needs. Investment performance will be calculated on a gross basis before fees and expenses and tracked monthly for internal use and monitoring. The benchmark for "market- average rate" shall be the rate of return of an appropriate market-based index which has a duration or

weighted average maturity similar to that of the PCE's portfolio, against which portfolio performance shall be compared on a regular basis.
Performance will be benchmarked to an appropriate performance index.

15. **Reporting**

The Chief Financial Officer will provide a quarterly investment report to the PCE Audit & Finance Committee showing all transactions, type of investment, issuer, purchase date, maturity date, purchase price, yield to maturity, total return, performance benchmark, and current market value for all securities. The quarterly report shall be submitted within 45 days following the end of the quarter covered by the report. An annual investment report shall be provided to the PCE Board of Directors in the month following the end of PCE's fiscal year. The Treasurer will provide monthly reports to the Board as required by Government Code 53607.

16. **Policy Review**

This Investment Policy will be reviewed at least annually to ensure its consistency with:

a. The California Government Code sections that regulate the investment and reporting of public funds.
b. The overall objectives of preservation of principal, sufficient liquidity, and a market return.
c. Performance of investment advisor(s) against the appropriate benchmark.

Glossary

Asset Backed Securities (ABS) are securities backed by loans or receivables on assets other than real estate. ABS can be secured by a variety of assets including, but not limited to credit card receivables, auto loans, and home equity loans.

Benchmark is a comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker-Dealer is a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Negotiable Certificates of Deposit are large-denomination CDs. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail.

State law does not require the collateralization of negotiable CDs.

Collateral refers to securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

Commercial Paper is a short term, unsecured, promissory note issued by a corporation to raise working capital.

Delivery Versus Payment is a method of delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

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Federal Agency Obligations are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

Issuer means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

Liquidity refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

Local Agency Investment Fund (LAIF) is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is $5,000, in multiples of $1,000 above that, with a maximum of $75 million for any California public agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

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Net Asset Value (NAV) is the value of an entity's assets minus the value of its liabilities, often in relation to open-end or mutual funds, since shares of such funds registered with the U.S. Securities and Exchange Commission are redeemed at their net asset value.

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2. **Treasury Notes** that have original maturities of one to ten years.
3. **Treasury Bonds** that have original maturities of greater than 10 years.

Yield to Maturity is the rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.

Policy Number: 19
Board Adoption: October 25, 2018
Revised: May 28, 2020
Revised: October 26, 2023

Investment Policy

Overview and Purpose

This statement contains guidelines for the prudent investment of cash balances held by Peninsula Clean Energy (PCE) in accordance with Government Code sections 53600, et. seq. The overarching goal of PCE's Investment Policy is to protect PCE's pooled cash while producing a reasonable rate of return on investments.

1. **Scope**
   The Investment Policy applies to all funds and investment activities of PCE. This does not apply to the investment of bond proceeds, which are governed by the appropriate bond documents. This does not apply to any pension or other post-employment benefit funds held in a trust, as PCE does not have any such funds at this time and has no plans to have such funds.

2. **Prudence**
   The standard of prudence to be used by investment officials will be the "prudent investor" standard, which states that, "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

3. **Objectives**
   The primary objectives, in priority order, of the investment activities of PCE are:

   a. SAFETY – Preservation of principal is the foremost objective of Peninsula Clean Energy.
   b. LIQUIDITY – PCE's portfolio will remain sufficiently liquid to enable PCE to meet its cash flow requirements. It is important that the portfolio contain investments which provide the ability of being easily sold at any time with minimal risk of loss of principal or interest.
   c. RETURN – PCE's portfolio will be designed to attain a market rate of return through economic cycles consistent with the constraints imposed by its safety and liquidity objectives.

4. **Delegation of Investment Authority**
   Pursuant to Government Code Section 53607, the Treasurer (and his/her designee, if necessary) is authorized to invest and reinvest money of PCE, to sell or exchange securities

so purchased, and to deposit such securities for safekeeping in accordance with and subject to this Investment Policy.

PCE may engage the support services of outside investment advisors in regard to its investment program, so long as these services are likely to produce a net financial advantage or necessary financial protection of PCE's financial resources. Outside investment advisors must be approved by the Chief Executive Officer, the Treasurer and the Board of Directors. It is PCE's intention to use the services of outside investment advisors to manage PCE's investment program. PCE will be responsible for managing the investment advisors.

5. Investment Procedures

The Chief Financial Officer and Chief Executive Officer will recommend investment procedures for the operation of PCE's investment program for approval by PCE's Board of Directors.

6. Ethics and Conflicts of Interest

Officers and employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

7. Authorized Financial Dealers and Institutions

The purchase by PCE of any investment other than those purchased directly from the issuer, will be purchased either from an institution licensed by the State as a broker- dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

The Chief Financial Officer is responsible for the evaluation of all institutions that wish to do business with PCE, to determine if they are adequately capitalized, staffed by qualified investment professionals, and agree to abide by the conditions set forth in PCE's Investment Policy and any other guidelines that may be provided. This will be done annually by having the financial institutions:

a. Provide written notification that they have read, and will abide by, PCE's Investment Policy.
b. Submit their most recent audited Financial Statements within 120 days of the institution's fiscal year end.

If PCE has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of PCE.

Purchase and sale of securities will be made on the basis of best execution.

8. Acceptable Investment Instruments

Where this section specifies a percentage limitation for a particular security type or issuer, that percentage is applicable only on the date of purchase and shall be calculated on the basis of market value. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the investment. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment.

PCE will diversify its investments by security type and institution. With the exception of U.S. Treasury and federal agency securities, supranational obligations, investment pools and money market funds, no more than 5% of market value of PCE's portfolio will be invested in a single issuer regardless of sector type.

Acceptable investments authorized for purchase on behalf of PCE are:

a. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest.

b. **Federal agency or United States government-sponsored enterprise obligations**, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

c. **Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency that is rated in a rating category of "A" or its equivalent or better by a nationally recognized statistical-rating organization (NRSRO). Purchases of the obligations described in this subdivision and in subdivision 4 (registered treasury notes or bonds of any of the other 49 states in addition to California) collectively may not exceed 20% of PCE's portfolio.

d. **Registered treasury notes or bonds of any of the other 49 states in addition to California**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of these states that is rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of the obligations described in this subdivision and in subdivision 3 (obligations of the State of California or any local agency within the state)

collectively may not exceed 20% of PCE's portfolio.

e. **Commercial Paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper must meet all of the following conditions in either paragraph a or paragraph b:

   i. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars ($500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

   ii. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

   Eligible commercial paper will have a maximum maturity of 270 days or fewer. No more than 20% of PCE's portfolio may be invested in commercial paper.

f. **Negotiable Certificates of Deposit** issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state- licensed branch of a foreign bank. Eligible negotiable certificates of deposit (negotiable CDs) shall be rated in a rating category of "A" for long-term, "A-1" for short-term, their equivalents, or better by an NRSRO. No more than 20% of PCE's portfolio may be invested in negotiable CDs.

g. **Demand Deposits** – Collateralized

h. **Passbook Savings Accounts** – Collateralized

i. **Shares of beneficial interest issued by diversified management companies** that are **money market funds** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment, money market funds must be managed with the goal of maintaining a stable net asset value (NAV) per share of $1.00.

   Further, to be eligible for investment pursuant to this subdivision these companies (money market funds) will either: (i) attain the highest ranking or the highest letter and numerical rating provided by at least two NRSROs or (ii) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with

not less than five years of experience managing money market mutual funds and with assets under management in excess of $500,000,000.

It is possible that a money market fund that is managed with the goal of maintaining a stable NAV per share of $1.00 may be unable to maintain a NAV of $1.00 per share due to market conditions or other factors. In such instances, the Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the fund(s), subject to any restraints imposed by the money market fund(s).

No more than 20% of PCE's investment portfolio may be invested in money market funds or mutual funds combined. Further, no more than 10% of PCE's investment portfolio may be invested in any one money market fund. A money market fund's holding may not include auction rate securities or other securities that are not allowed under PCE's investment policy.

j. **Repurchase Agreements**. Overnight Repurchase Agreements shall be used solely as short-term investments not to exceed 3 days.

k. **Local Agency Investment Fund (State Pool)** - An investment pool managed by the State Treasurer. PCE can invest up to the maximum amount permitted by the State Treasurer.

l. **San Mateo County Pool** - As authorized by Government Code Section 53684.

m. **Local Government Investment Pools (LGIPs)** - Shares of beneficial interest issued by a joint powers authority (Local Government Investment Pools or "Pool") organized pursuant to Government Code Section 6509.7 that invest in the securities and obligations authorized in subdivisions (a) to (r) of California Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the Joint Powers Authority. The Pool will be rated in a rating category "AAA" or its equivalent by a NRSRO. To be eligible under this section, the shares will maintain a stable net asset value (NAV) and the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

    i. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
    ii. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) Government Code Section 53601, inclusive.
    iii. The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

n. **Bankers' acceptances** otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40% of PCE's portfolio that may be invested pursuant to this section. However, no more than 30% of PCE's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

o. **Medium-term notes**, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, are issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30% of PCE's portfolio that may be invested pursuant to this section.

p. **Asset-Backed securities**, a mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond not defined in sections 8a and 8b above. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20% of PCE's portfolio that may be invested pursuant to this section.

q. **Supranationals**, United States dollar-denominated senior, unsecured, unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30% PCE's portfolio that may be invested pursuant to this section.

9. Collateralization

Section 53600 et. seq. of the State of California Government Code outlines the collateral requirements for public funds on deposit above the FDIC insurance amounts. These collateral requirements apply to both active bank deposits (checking and savings accounts) and inactive bank deposits (non-negotiable certificates of deposit).

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pfm asset management

September 2023

Memorandum

To: Andy Stern, Chief Financial Officer
Peninsula Clean Energy

From: Monique Spyke, Managing Director
PFM Asset Management LLC

RE: Investment Policy Review

PFM Asset Management LLC has completed its review of Peninsula Clean Energy's ("PCE") Investment Policy dated May 2020 (the "Policy"). At this time, we are recommending Policy changes in response to changes to California Government Code (the "Code") that went into effect since the Policy's last revision. We are also suggesting PCE consider adding additional acceptable investment types in order to allow for greater access to the high-quality fixed-income universe of investments, further diversify the portfolio's holdings; and safely enhance investment return potential.

Below, we have summarized the relevant Code changes and our Policy recommendations, as well as the sector types we recommend adding to the Policy. We have also attached a marked-up version of the PCE's Policy to illustrate our recommendations.

Senate Bill 1489, also known as the Local Government Omnibus Act of 2022, that went into effect on January 1, 2023, made a number of changes to Code, including several that impact the investment of public funds and the reporting practices of public agencies. Changes made to Code section 53601, the section of Code that governs the investment of public funds, include the addition of language stating that an investment's term or remaining maturity shall be measured from the settlement date to final maturity, and, that a security purchased in accordance with Code section 53601 shall not have a forward settlement date exceeding 45 days from the time of investment. Previously, Code was silent on both items.

- To address the new Code language regarding forward settlement, we recommend adding the new Code language to the Policy's *Acceptable Investment Instruments* section.
- To address the new Code language regarding calculating a security's term to maturity, we recommend adding the new Code language to the Policy's *Maturity Limit* section.

SB 1489 also modified Code section 53646 and its reporting requirements. Per Code, producing a quarterly report is optional for public agencies. However, should an agency choose to produce a quarterly report, certain requirements must be met. One of those requirements was to produce the report within thirty (30) days following the end of the period covered by the report. With SB 1489, that time has been extended to forty-five (45) days.

- We recommend PCE edit Policy's *Reporting* section to address the Code change.

Senate Bill 998, which took effect on January 1, 2021, made a number of amendments to certain sections of the Code which govern the investment of public funds. In response to the changes, we have

the following recommendation. In the Policy's *Acceptable Investment Instruments* section, delete the Policy's commercial paper language regarding the issuing corporation's outstanding paper, as this language was removed from the Code.

As we did in our 2020 review, we are suggesting PCE consider adding investment types to the Policy's *Acceptable Investment Instruments* section. Specifically, we are recommending PCE add language to allow for investment in supranationals (Code §53601(q)), and asset-backed securities (Code §53601(o)). The language we suggest in the Policy matches Code language, except that we are recommending a 5% issuer limit on these investment types where Code has no issuer limit. Allowing these additional investment types can improve diversification and offer various benefits to the portfolio including return enhancement and diversification. We believe that making these edits is an appropriate action in the process of safely and effectively managing PCE's portfolio

Please let me know if you'd like to schedule a call to discuss our recommendations or to answer any questions you may have. Thank you.

PENINSULA CLEAN ENERGY AUTHORITY
JPA Board Correspondence

DATE: October 16, 2023
BOARD MEETING DATE: October 16, 2023
VOTE REQUIRED: Majority Vote

TO: Honorable Peninsula Clean Energy Authority Audit and Finance Committee

FROM: Andy Stern, Interim Chief Financial Officer

SUBJECT: Recommend that the Board of Directors Approve the Audited Financial Statements for Fiscal Year 2022-2023 (Action)

RECOMMENDATION

Recommend that the Board of Directors Approve the Audited Financial Statements for Fiscal Year 2022-2023.

BACKGROUND

The financial statements for Fiscal Year 2022-2023 have been prepared by PCE management and audited by the independent auditor, Pisenti & Brinker. The audit work began in July 2023 and the financial statements are ready for the Audit and Finance Committee's review. Upon recommendation of approval of these statements by the Audit & Finance Committee, the statements will be presented to the Board of Directors for their final approval.

FISCAL IMPACT

None.

STRATEGIC PLAN

The annual independent financial audit supports the following objectives in Peninsula Clean Energy's strategic plan:

- Priority B: Implement financial controls and policies that meet or exceed best practices for leading not-for-profit organizations

ATTACHMENTS:
DRAFT PCE 2022-23 FS 10.11.23.pdf

RESOLUTION NO. _____

PENINSULA CLEAN ENERGY AUTHORITY, COUNTY OF SAN MATEO, STATE OF CALIFORNIA

RECOMMEND THAT THE BOARD OF DIRECTORS APPROVE THE AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2022-2023 (ACTION)

RESOLVED, by the Audit and Finance Committee of Peninsula Clean Energy Authority (PCEA) of the County of San Mateo, State of California, that

WHEREAS, Pisenti & Brinker, LLP, certified public accountants and advisors, were selected as independent auditors to audit PCEA's financials for the fiscal years ending June 30, 2018, June 30, 2019, June 30, 2020, June 30, 2021, June 30, 2022 and June 30, 2023; and

WHEREAS, Pisenti & Brinker, LLP conducted the fieldwork to audit the financial statements for the fiscal year ending June 30, 2023; and

WHEREAS, Pisenti & Brinker, LLP presented the draft audited financial statements to the Audit and Finance Committee of PCEA at its meeting on October 16, 2023 with a clean opinion.

NOW, THEREFORE, IT IS HEREBY RESOLVED that the Audit and Finance Committee recommends that the PCEA Board of Directors approve the audited financial statements for Fiscal Year 2022-2023.

FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2023 AND 2022

WITH REPORT OF

INDEPENDENT AUDITORS

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PENINSULA

CLEAN ENERGY

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The Management's Discussion and Analysis provides an overview of Peninsula Clean Energy Authority's (PCE) financial activities as of and for the years ended June 30, 2023 and 2022. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of PCE was made possible in 2002 by the passage of California Assembly Bill 117, enabling communities to purchase power on behalf of their residents and businesses and creating competition in power generation.

PCE was created as a California Joint Powers Authority (JPA) on February 29, 2016, Its purpose is to provide electric power at a competitive cost as well as to provide other benefits within San Mateo County, including reducing greenhouse gas emissions related to the use of power, procuring energy with a priority on the use and development of local renewable resources, stimulating local job creation through various programs and development, promoting personal and community ownership of renewable resources, and promoting long-term electric rate stability and energy reliability for residents and businesses.

PCE currently serves twenty-two jurisdictions located in San Mateo and Merced Counties. The jurisdictions include the City of Los Banos, in Merced County, which PCE began serving on April 1, 2022, and the unincorporated areas and the twenty cities and towns located in San Mateo County (Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, and Woodside).

PCE is governed by twenty-three board members, with a representative from each of the twenty cities and towns of San Mateo County, two board members representing the unincorporated areas of San Mateo County, and one board member representing the City of Los Banos. PCE's Board of Directors has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. PCE is responsible for the acquisition of electric power for its service area.

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Financial Reporting

PCE presents its financial statements as an enterprise fund under the economic resources measurement focus and the accrual basis of accounting, in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB).

Contents of this Report

This report is divided into the following sections:

- Management's discussion and analysis.
- The Basic Financial Statements:
  - The *Statements of Net Position* include all of PCE's assets, liabilities, and net position and provides information about the nature and amount of resources and obligations at a specific point in time.
  - The *Statements of Revenues, Expenses and Changes in Net Position* report all of PCE's revenues and expenses for the years shown.
  - The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other sources and uses, such as capital asset acquisitions and investments.
  - The notes to the Basic Financial Statements provide additional details and information related to the basic financial statements.

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FINANCIAL HIGHLIGHTS

The following table is a summary of PCE's assets, liabilities, and net position and a discussion of significant changes during the years ended June 30:

	2023	2022	2021
Current assets			
Cash and cash equivalents	$130,225,289	$ 9,777,452	$ 16,153,603
Accounts receivable & accrued revenue	59,449,359	53,591,360	29,365,007
Investments	9,473,416	17,564,207	16,672,184
Other current assets	31,081,860	13,417,474	11,742,230
Total current assets	230,229,924	94,350,493	73,933,024
Noncurrent assets			
Capital and lease assets, net	3,245,102	2,355,826	2,930,410
Investments	113,806,280	107,748,793	137,275,212
Other noncurrent assets	1,384,089	192,878	248,976
Total noncurrent assets	118,435,471	110,297,497	140,454,598
Total assets	348,665,395	204,647,990	214,387,622
Current liabilities			
Accrued cost of electricity	25,646,569	27,138,918	23,574,256
Other current liabilities	12,333,295	6,424,980	6,274,032
Total current liabilties	37,979,864	33,563,898	29,848,288
Noncurrent liabilities	3,059,539	3,413,358	3,822,281
Total liabilities	41,039,403	36,977,256	33,670,569
Net position			
Investment in capital assets	399,493	126,979	262,156
Restricted for security collateral	-	-	4,449,194
Unrestricted	307,226,499	167,543,755	176,005,703
Total net position	$307,625,992	$167,670,734	$180,717,053

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Current Assets

Current assets increased during 2023 as a result of PCE's operating surplus. This surplus was the result of rate increases and the expansion into the city of Los Banos. PCE's current assets were approximately $231,425,000 at the end of 2023, and are mostly comprised of cash and cash equivalents, accounts receivable and accrued revenue. Accrued revenue differs from accounts receivable in that it represents electricity provided to PCE customers that had not yet been invoiced as of the statement of net position date.

Noncurrent Assets

Capital assets are reported net of depreciation. Changes each year include leasehold improvements made at PCE's office and the acquisition of furniture and equipment, less depreciation expense. In 2023, PCE reached agreements with several cities and the County of San Mateo to install solar and battery storage on public buildings. Costs associated with this agreement are shown as construction in progress.

A lease asset is reported in accordance with Governmental Accounting Standards Board No. 87 (GASB 87) that was implemented during 2022, with a restatement back to 2020. According to GASB, the Statement aims to increase the usefulness of governments' financial statements by requiring reporting of certain lease assets and liabilities that previously were not recognized on the statement of net position.

Other noncurrent assets held fairly stable from 2022 to 2023. This category consists of various deposits for regulatory and other operating purposes expected to be held longer than a year. Included are deposit postings with the California Public Utilities Commission (CPUC), rent deposits, and collateral held by PCE from energy suppliers.

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Current Liabilities

The largest component of current liabilities is the unpaid cost of electricity delivered to customers which remained stable from year to year.

PCE participates in a FLEXmarket Program administered through Pacific Gas and Electric (PG&E). This program offers incentives for certain energy efficiency measures. Eligible projects and incentives are evaluated by the metered energy savings they provide. During 2023, PCE received approximately $4,679,000 to provide funding for future projects. PCE has not incurred any expenses for the program as of June 30, 2023. This amount is included in deferred revenue on the Statements of Net Position and accounts for the entire change from 2022 to 2023.

Noncurrent Liabilities

Various contracts entered into by PCE require the supplier to provide PCE with a security deposit. These deposits will be returned by PCE at the completion of the related contract or as other milestones are met. There was little change in deposits from 2022 to 2023.

Revenues and Expenses

The following table is a summary of PCE's results of operations and a discussion of significant changes for years ended June 30:

	2023	2022	2021
Operating revenues	$ 428,218,199	$ 237,898,558	$ 228,101,324
Nonoperating revenues	789,539	1,824,346	35,636
Interest and investment returns	2,164,071	(6,153,368)	40,816
Total revenues	431,171,809	233,569,536	228,177,776
Operating expenses	291,154,063	246,539,330	236,303,283
Charitable contributions	-	-	50,000
Interest and finance costs	62,488	76,525	179,171
Total expenses	291,216,551	246,615,855	236,532,454
Change in net position	$ 139,955,258	$ (13,046,319)	$ (8,354,678)

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Operating revenues

PCE's operating revenues are derived from the sale of electricity to commercial and residential customers throughout its territory. PCE reports its revenue net of uncollectible accounts. Rate increases in effect during 2023 account for the majority of the increase in revenue from the prior year. Additionally, the inclusion of Los Banos for the full year in 2023 resulted in an increase in revenue from 2022.

Other revenues

The nonoperating revenue increase from 2021 to 2022 was primarily the result of grant income from the California Arrearage Payment Plan (CAPP) that was received in 2022. CAPP grant income declined from 2022 to 2023. Investment income decreased in 2022 as a result of a market value adjustment related to a reduction of market interest rates. Market rate increases in 2023 contributed to increase investment returns. Management intends to hold investments to maturity.

Operating expenses

PCE's largest expense each year was the purchase of electricity delivered to retail customers. PCE procures energy from a variety of sources and focuses on maintaining a balanced renewable power portfolio at competitive costs. Electricity costs increased each year from 2021 to 2023. The main cause of the increase was overall higher market prices. In 2022, the expansion to Los Banos also required additional electricity to be purchased. Expenses for staff compensation, contract services, customer incentive programs and other general and administrative expenses increased each year as the organization continued to grow to support its customer demands.

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ECONOMIC OUTLOOK

The COVID-19 pandemic impacted PCE's business like many other businesses during fiscal years 2020-21 and 2021-22 as the regional economy slowed during shelter-in place orders and the subsequent return to a new normal of economic activity. PCE's electricity loads declined from a high of 3.71 million MWh in fiscal year 2019-20 to 3.55 million MWh in fiscal year 2021-22 and 2022-23, driven by pandemic impact and recoveries. However, we have seen electricity load recover and are currently projecting a load of 3.72 million MWh in fiscal year 2023-2024.

PCE has a portfolio of energy programs supporting electrification of buildings and transportation, load shaping, and fostering local solar and storage. In fiscal year 2023-24, PCE is investing over $12 million in programs including technical assistance for solar and EV charging installations, finance for electrification, and incentives for electric vehicles (EV), EV charging, electric appliances among others. Clean energy technologies is in a period of accelerating adoption, especially for EVs. In addition, nearly all local governments have adopted building codes with requirements for all-electric new construction and EV readiness.

REQUEST FOR INFORMATION

This financial report is designed to provide PCE's customers and creditors with a general overview of the organization's finances and to demonstrate PCE's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to 2075 Woodside Road, Redwood City, CA 94061.

Respectfully submitted,

Shawn Marshall, Chief Executive Officer

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BASIC FINANCIAL STATEMENTS

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PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022

ASSETS	**2023**	**2022**
Current assets		
Cash and cash equivalents	$ 130,225,289	$ 9,777,452
Accounts receivable, net of allowance	37,224,799	32,869,379
Accrued revenue	22,224,560	20,721,981
Investments	9,473,416	17,564,207
Other receivables	6,273,418	2,986,880
Prepaid expenses	8,566,209	4,976,571
Deposits	16,242,233	5,454,023
Total current assets	230,229,924	94,350,493
Noncurrent assets		
Investments	113,806,280	107,748,793
Other receivables	1,195,215	-
Deposits and other assets	188,874	192,878
Lease asset, net of amortization	1,601,332	2,094,052
Capital assets and construction in progress, net of depreciation	1,643,770	261,774
Total noncurrent assets	118,435,471	110,297,497
Total assets	348,665,395	204,647,990
LIABILITIES		
Current liabilities		
Accrued cost of electricity	25,646,569	27,138,918
Accounts payable	1,161,115	1,171,803
Other accrued liabilities	1,829,885	804,834
Deferred revenue	4,844,063	273,500
User taxes and energy surcharges due to other governments	1,240,296	1,081,831
Deposits - energy suppliers	2,758,099	2,624,090
Lease liability	499,837	468,922
Total current liabilities	37,979,864	33,563,898
Noncurrent liabilities		
Deposits - energy suppliers	1,799,451	1,653,433
Lease liability	1,260,088	1,759,925
Total noncurrent liabilities	3,059,539	3,413,358
Total liabilities	41,039,403	36,977,256
NET POSITION		
Net investment in capital assets	399,493	126,979
Unrestricted	307,226,499	167,543,755
Total net position	$ 307,625,992	$ 167,670,734

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The accompanying notes are an integral part of these financial statements.

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
Electricity sales, net	$ 423,844,350	$ 233,526,144
Green electricity premium	3,011,461	2,858,977
Liquidated damages revenue	252,060	493,183
Grant revenue	1,110,328	1,020,254
Total operating revenues	428,218,199	237,898,558
OPERATING EXPENSES		
Cost of electricity	265,207,567	226,678,063
Contract services	10,726,493	10,188,609
Staff compensation	8,001,779	6,351,193
Other operating expenses	6,650,426	2,747,244
Depreciation and amortization	567,798	574,221
Total operating expenses	291,154,063	246,539,330
Operating income (loss)	137,064,136	(8,640,772)
NONOPERATING REVENUES (EXPENSES)		
Grant revenue	789,539	1,824,346
Interest and investment returns	2,164,071	(6,153,368)
Finance costs	(62,488)	(76,525)
Nonoperating revenues (expenses), net	2,891,122	(4,405,547)
CHANGE IN NET POSITION	139,955,258	(13,046,319)
Net position at beginning of year	167,670,734	180,717,053
Net position at end of year	$ 307,625,992	$ 167,670,734

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The accompanying notes are an integral part of these financial statements.

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 427,757,814	$ 216,039,305
Receipts from grantors	5,788,891	1,020,254
Receipts from supplier security deposits	16,363,798	6,639,091
Receipts of liquidated damages	-	493,183
Payments to suppliers for electricity	(273,473,707)	(226,221,013)
Payments for other goods and services	(19,025,668)	(12,802,091)
Deposits and collateral paid	(26,743,771)	(5,616,033)
Payments for staff compensation	(7,970,572)	(6,249,329)
Payments of taxes and surcharges to other governments	(6,064,477)	(3,547,693)
Net cash provided (used) by operating activities	116,632,308	(30,244,326)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grant revenue	789,539	1,824,346
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments of lease liability	(531,409)	(533,808)
Payments to acquire capital assets	(371,391)	-
Net cash used by capital and related financing activities	(902,800)	(533,808)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investment sales	42,294,286	58,926,086
Investment income received	3,440,698	1,947,354
Purchase of investments	(41,806,194)	(38,295,803)
Net cash provided by investing activities	3,928,790	22,577,637
Net change in cash and cash equivalents	120,447,837	(6,376,151)
Cash and cash equivalents at beginning of year	9,777,452	16,153,603
Cash and cash equivalents at end of year	$ 130,225,289	$ 9,777,452

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The accompanying notes are an integral part of these financial statements.

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	2023	2022
Operating income (loss)	$ 137,064,136	$ (8,640,772)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization expense	567,798	574,221
(Increase) decrease in:		
Accounts receivable, net	(4,355,420)	(14,459,383)
Accrued revenue	(1,502,579)	(9,766,970)
Other receivables	(4,337,373)	1,305,636
Prepaid expenses	(3,589,638)	(1,405,359)
Deposits and other assets	(10,660,000)	(1,616,033)
Increase (decrease) in:		
Accrued cost of electricity	(1,492,350)	3,564,669
Accounts payable	(10,688)	(75,305)
Deferred revenue	4,570,563	-
Other accrued liabilities	(48,565)	(6,930)
User taxes and energy surcharges due to other governments	158,465	333,207
Supplier security deposits	280,027	(51,307)
Net cash provided (used) by operating activities	$ 116,644,376	$ (30,244,326)

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The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Peninsula Clean Energy (PCE) is a joint powers authority created on February 29, 2016. As of June 30, 2023, parties to its Joint Powers Agreement consist of the following local governments:

County	Cities and Towns	
San Mateo	Atherton	Menlo Park
	Belmont	Millbrae
	Brisbane	Pacifica
	Burlingame	Portola Valley
	Colma	Redwood City
	Daly City	San Bruno
	East Palo Alto	San Carlos
	Foster City	San Mateo
	Half Moon Bay	South San Francisco
	Hillsborough	Woodside
	Los Banos	

PCE is separate from and derives no financial support from its members. PCE is governed by a Board of Directors whose membership is composed of elected officials representing the member governments.

A core function of PCE is to provide electric service that includes renewable sources, and it operates as a Community Choice Aggregation Program subject to California Public Utilities Code Section 366.2.

PCE began its energy delivery operations in October 2016. Electricity is acquired from electricity suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING

PCE's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

PCE's operations are accounted for as a governmental enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred. Enterprise fund-type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into three categories – investment in capital assets, restricted and unrestricted.

When both restricted and unrestricted resources are available for use, it is PCE's policy to use restricted resources first, and then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

For purposes of the Statements of Cash Flows, PCE defines cash and cash equivalents to include cash on hand, demand deposits and short-term investments with an original maturity of three months or less. For the purpose of the Statements of Net Position, restricted cash balances are presented separately.

INVESTMENTS

Investments are stated at fair value based on prices listed on a national exchange for debt securities. Certificates of deposits are stated at cost. PCE intends to hold its securities to maturity. Investments with a maturity of less than one year are shown as current assets in the Statement of Net Position. Investments with a maturity of one year or more are shown as noncurrent assets in the Statement of Net Position.

PCE's Investment Policy permits the investment of funds in depository accounts, certificates of deposit and the Local Agency Investment Fund (LAIF) program operated by the California State Treasury, United States Treasury obligations, Federal Agency Securities, commercial paper, and money market funds.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PREPAID EXPENSES AND DEPOSITS

Contracts to purchase energy may require PCE to provide the supplier with advanced payments or security deposits. Deposits are generally held for the term of the contract and are classified as current or noncurrent assets depending on the length of time the deposits will be outstanding. Also included are prepaid expenses and deposits for regulatory and other operating purposes.

LEASE ASSET AND LEASE LIABILITY

PCE recognizes an asset and liability when it enters into certain leasing arrangements. The leased asset is amortized over the term of the lease. The lease liability is the present value of payments expected to be paid to the lessor during the lease term. PCE's only leased asset and liability relate to its office premises.

CAPITAL ASSETS AND DEPRECIATION

PCE's policy is to capitalize furniture and equipment valued over $5,000 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment, seven years for furniture and ten years for leasehold improvements. PCE does not own any electric generation assets.

DEPOSITS – ENERGY SUPPLIERS

Various energy contracts entered into by PCE require the supplier to provide PCE with a security deposit. These deposits are generally held for the term of the contract or until the completion of certain benchmarks. Deposits are classified as current or noncurrent depending on the length of time the deposits will be held.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET POSITION

Net position is presented in the following components:

Net Investment in capital assets: This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets. PCE did not have any such outstanding borrowings as of June 30, 2023 and 2022.

Unrestricted: This component of net position consists of net position that does not meet the definition of "investment in capital assets" or "restricted."

OPERATING AND NONOPERATING REVENUES

Operating revenues include revenue derived from the provision of energy to retail and wholesale customers. Many of PCE's retail customers have opted to purchase a 100% renewable electricity product and pay a $0.01 per kilowatt hour premium. Revenues derived from this premium are reported throughout these financial statements as "Green electricity premium."

Investment income includes interest earned on bank deposits as well as unrealized gains and losses on its investment holdings. Interest and investment income (loss) is considered a nonoperating activity.

REVENUE RECOGNITION

PCE recognizes revenue on the accrual basis. This includes invoices issued to customers during the reporting period and electricity estimated to have been delivered but not yet billed. Management estimates that a portion of the billed amounts will be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded.

OPERATING AND NONOPERATING EXPENSES

Operating expenses include the costs of electricity and services, administrative expenses, and depreciation of capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

During the normal course of business, PCE purchases electrical power from numerous suppliers. Electricity costs include the cost of energy and capacity arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from PCE's participation in the California Independent System Operator's centralized market. The cost of electricity and capacity is recognized as "Cost of Electricity" in the Statements of Revenues, Expenses and Changes in Net Position.

To comply with the State of California's Renewable Portfolio Standards (RPS) and self-imposed benchmarks, PCE acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). PCE obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive. PCE recognizes an expense on a monthly basis that corresponds to the volume sold to its customers for its various renewable and carbon free products. This expense recognition increases accrued cost of electricity reported on the Statements of Net Position. Payments made to suppliers reduce accrued cost of electricity.

PCE purchases capacity commitments from qualifying generators to comply with the California Public Utilities Commission's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to the California Independent System Operator to ensure the safe and reliable operation of the grid in real-time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future.

STAFFING COSTS

PCE pays employees semi-monthly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan each month. PCE is not obligated to provide post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements. PCE provides compensated time off, and the related liability is recorded in these financial statements.

INCOME TAXES

PCE is a joint powers authority under the provision of the California Government Code and is not subject to federal or state income or franchise taxes.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements. These reclassifications did not result in any change in previously reported net position or change in net position.

2. CASH AND CASH EQUIVALENTS

PCE maintains its cash in both interest-bearing and non-interest-bearing deposit accounts in several banks. PCE's deposits are subject to California Government Code Section 16521, which requires banks to collateralize public funds in excess of the Federal Deposit Insurance Corporation (FDIC) limit of $250,000 by 110%. Certain short-term investments with original maturities of less than three months are classified as cash and cash equivalents, which are not subject to the collateral requirement or FDIC coverage previously mentioned. Accordingly, the amount of risk is not disclosed. PCE monitors its risk exposure on an ongoing basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of June 30:

	2023	2022
Accounts receivable from customers	$40,713,367	$34,793,412
Allowance for uncollectible accounts	(3,488,568)	(1,924,033)
Net accounts receivable	$37,224,799	$32,869,379

The majority of account collections occur within the first few months following the issuance of customer invoices. PCE estimates that a portion of the billed accounts will not be collected. PCE continues collection efforts on accounts in excess of *de minimis* balances regardless of the age of the account. Although collection success generally decreases with the age of the receivable, PCE continues to have success in collecting older accounts. The allowance for uncollectible accounts at the end of a period includes amounts billed during the current and prior fiscal years. During 2023 and 2022, PCE recorded $3,162,000 and $2,070,000, respectively, as an increase to the allowance for uncollectible accounts due to bad debt expense. Bad debt expense is reported as a reduction in electricity sales on the Statement of Revenues, Expenses and Changes in Net Position. Other changes in the allowance for uncollectible accounts from year to year are the result of account write-offs. In 2023 and 2022, PCE received CAPP funds (see Note 6) that helped recover for previously written off accounts receivable.

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4. INVESTMENTS

During the years ended June 30, 2023 and 2022, PCE purchased investments with original maturities of three months or more. As of June 30, the fair value of investments was as follows:

	2023	2022
Current Investments:		
U.S. Treasury Securities	$ 9,227,405	$ 16,280,704
Corporate bonds	246,011	1,283,503
Total current investments	$ 9,473,416	$ 17,564,207

	2023	2022
Noncurrent Investments:		
U.S. Treasury Securities	$ 73,316,271	$ 69,956,207
Corporate bonds	34,176,492	31,409,654
Municipal bonds	6,313,517	6,382,932
Total noncurrent investments	$ 113,806,280	$ 107,748,793

FAIR VALUE MEASUREMENT

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. PCE's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of June 30, 2023 and 2022, PCE's investments are considered Level 1 inputs. Quoted prices in active markets were used for determining fair value measurement.

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4. INVESTMENTS (continued)

CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2023 and 2022, PCE's investments were rated as follows:

	Moody's Investors Service	
	2023	2022
U.S. Treasury Securities	NR and Aaa	NR and Aaa
Certificates of Deposit	NR	NR
Corporate Bonds	A3 to Aaa	A3 to Aaa
Municipal Bonds	NR & Aa2 to Aaa	NR & Aa2 to Aaa

PCE's investment policy addresses this risk. PCE limits investments to those allowed by Section 53601 of the California Government Code that addresses the risk allowable for each investment.

CUSTODIAL CREDIT RISK-CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a financial institution failure, PCE's deposits may not be returned to PCE. PCE's deposits are subject to California Government Code Section 16521, which requires banks to collateralize public funds in excess of the Federal Deposit Insurance Corporation (FDIC) limit of $250,000 by 110%.

As of June 30, 2023 and 2022, none of PCE's bank balances are known to be individually exposed to credit risk.

CUSTODIAL CREDIT RISK-INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, PCE would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All of PCE's investments are exposed to credit risk.

PCE's investment policy addresses this risk. All investments owned by PCE shall be held in safekeeping by a third-party custodian, acting as an agent for PCE under the terms of a custody agreement.

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4. INVESTMENTS (continued)

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. PCE manages its exposure to declines in fair values by limiting the weighted average maturity of its investments.

Following is a summary of investment maturities as of June 30, 2023:

		Investment Maturities	
Investment Type	**Fair Value**	**Less Than 1 Year**	**1-5 Years**
U.S. Treasury Securities	$ 82,543,676	$ 9,227,405	$ 73,316,271
Corporate bonds-U.S.	33,478,162	246,011	33,232,151
Corporate bonds-foreign	944,341	-	944,341
Municipal bonds	6,313,517	-	6,313,517
	$ 123,279,696	$ 9,473,416	$ 113,806,280

Following is a summary of investment maturities as of June 30, 2022:

		Investment Maturities	
Investment Type	**Fair Value**	**Less Than 1 Year**	**1-5 Years**
U.S. Treasury Securities	$ 86,236,911	$ 16,280,704	$ 69,956,207
Corporate bonds-U.S.	32,198,932	1,283,503	30,915,429
Corporate bonds-foreign	494,225	-	494,225
Municipal bonds	6,382,932	-	6,382,932
	$ 125,313,000	$ 17,564,207	$ 107,748,793

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5. CAPITAL ASSETS AND LEASE ASSET

Capital asset activity for the years ended June 30, 2023 and 2022 was as follows:

	Furniture & Equipment and Construction in Progress	Leasehold Improvements	Accumulated Depreciation	Total
Balances at June 30, 2021	$ 446,581	$ 213,233	$ (316,174)	$ 343,640
Additions		-	(81,503)	(81,503)
Dispositions	(2,179)	-	1,816	(363)
Balances at June 30, 2022	444,402	213,233	(395,861)	261,774
Additions	1,433,434	23,640	(75,078)	1,381,996
Balances at June 30, 2023	$ 1,877,836	$ 236,873	$ (470,939)	$ 1,643,770

Lease asset activity for the years ended June 30, 2023 and 2022 was as follows:

	Lease Asset	Accumulated Amortization	Total
Balances at June 30, 2021	$ 3,079,488	$ (492,718)	$ 2,586,770
Additions	-	(492,718)	(492,718)
Balances at June 30, 2022	3,079,488	(985,436)	2,094,052
Additions	-	(492,720)	(492,720)
Balances at June 30, 2023	$ 3,079,488	$ (1,478,156)	$ 1,601,332

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6. GRANTS

PCE administers a grant from the California Arrearage Payment Program (CAPP) that offers financial assistance for California energy utility customers to help reduce past due energy bill balances that increased during the COVID-19 pandemic. This program is funded through the federal American Rescue Plan Act (ARPA) with Coronavirus State and Local Fiscal Recovery Funds.

PCE also administers a grant from the California Public Utilities Commission (CPUC) for the Disadvantaged Communities Green Tariff (DAC-GT). This grant provides bill discounts for eligible customers.

The following is a summary of grant revenue for the years ended June 30:

	2023	2022
CAPP	$ 789,539	$ 1,824,346
DAC	1,110,328	1,020,254
Total grant revenue	$ 1,899,867	$ 2,844,600

7. DEFINED CONTRIBUTION RETIREMENT PLAN

PCE provides retirement benefits through the County of San Mateo 401(a) Retirement Plan (Plan). The Plan is a defined contribution (Internal Revenue Code 401(a)) retirement plan established to provide benefits at retirement to employees of certain qualified employers admitted by the Plan. The Plan is administered by Empower. As of June 30, 2023, there were 40 plan participants. PCE is required to contribute 6% of the annual covered payroll and up to an additional 4% of annual covered payroll to match employee contributions. PCE contributed $574,000 and $473,000 during the years ended June 30, 2023 and 2022, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

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8. RISK MANAGEMENT

PCE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year, PCE purchased insurance policies from investment-grade commercial carriers to mitigate risks that include those associated with earthquakes, theft, general liability, errors and omissions, and property damage. Settled claims have not exceeded coverage in the last two years. There were no significant reductions in coverage compared to the prior year. PCE has general liability coverage of $2,000,000 as well as a $10,000,000 umbrella policy. Deductibles on the various policies range from $0 to $25,000.

From time to time, PCE may be party to various pending claims and legal proceedings. PCE has no current litigation or claims pending that are expected to have a material adverse effect on PCE's financial position or results of operations.

PCE maintains risk management policies, procedures and systems that help mitigate credit, liquidity, market, operating, regulatory and other risks that arise from participation in the California energy market. Credit guidelines include a preference for transacting with investment-grade counterparties, evaluating counterparties' financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. In addition, PCE enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counter parties.

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9. LEASE

A lease asset is reported in accordance with Governmental Accounting Standards Board No. 87 (GASB 87) that was implemented during 2022, with a restatement back to 2020. According to GASB, the Statement aims to increase the usefulness of governments' financial statements by requiring reporting of certain lease assets and liabilities that previously were not recognized on the statement of net position.

On August 1, 2017, PCE entered into an 86-month non-cancelable lease for its office premises. The rental agreement includes an option to renew the lease for two additional five-year terms. In September 2019, the lease was extended an additional two years to September 30, 2026. As part of the extension, PCE leased additional office space through the same termination date.

Rental payments under this lease were $543,000 and $530,000 for the years ended June 30, 2023 and 2022, respectively.

As of June 30, 2023, future minimum lease payments under this lease were projected as follows:

	Principal	Interest	Total
Year ending June 30,			
2024	$ 499,837	$ 47,515	$ 547,352
2025	532,209	31,563	563,772
2026	566,100	14,586	580,686
2027	161,779	877	162,656
Total	$ 1,759,925	$ 94,541	$ 1,854,466

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10. PURCHASE COMMITMENTS

In the ordinary course of business, PCE enters into various power purchase agreements to acquire renewable and other energy and electric capacity. The price and volume of purchased power may be fixed or variable. Variable pricing is generally based on the market price of either natural gas or electricity at the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind, and hydro-electric facilities.

The following table details the obligations to purchase existing energy, renewable, and resource adequacy (RA) contracts as of June 30, 2023:

Year ending June 30,	
2024	$ 269,319,000
2025	235,001,000
2026	178,936,000
2027	182,152,000
2028	179,501,000
2029-2046	1,461,437,000
Total	$2,506,346,000

11. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2023:

GASB has approved GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* GASB Statement No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, GASB Statement No. 99, *Omnibus 2022*, GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, and GASB Statement No. 101, *Compensated Absences*. Management is evaluating the effect of implementation of these statements.

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