



**REGULAR MEETING of the Audit and Finance Committee of the
Peninsula Clean Energy Authority (PCEA)
Tuesday, September 11, 2018**

Peninsula Clean Energy, 2075 Woodside Road,
Redwood City, CA 94061
9:00 a.m.

Meetings are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation (including auxiliary aids or services) to participate in this meeting, or who have a disability and wish to request an alternative format for the agenda, meeting notice, agenda packet or other writings that may be distributed at the meeting, should contact Anne Bartoletti, Board Clerk, at least 2 working days before the meeting at (650) 260-0111 and/or abartoletti@peninsulacleanenergy.com. Notification in advance of the meeting will enable the PCEA to make reasonable arrangements to ensure accessibility to this meeting and the materials related to it. Attendees to this meeting are reminded that other attendees may be sensitive to various chemical based products.

If you wish to speak to the Committee, please fill out a speaker's slip located on the tables as you enter the meeting room. If you have anything that you wish to be distributed to the Committee and included in the official record, please hand it to a member of PCEA staff who will distribute the information to the Committee members and other staff.

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

This item is reserved for persons wishing to address the Committee on any PCEA-related matters that are as follows: 1) Not otherwise on this meeting agenda; 2) Listed on the Consent Agenda; 3) Chief Executive Officer's or Staff Report on the Regular Agenda; or 4) Committee Members' Reports on the Regular Agenda. Public comments on matters not listed above shall be heard at the time the matter is called.

As with all public comment, members of the public who wish to address the Committee are requested to complete a speaker's slip and provide it to PCEA staff. Speakers are customarily limited to two minutes, but an extension can be provided to you at the discretion of the Committee Chair.

ACTION TO SET AGENDA AND TO APPROVE CONSENT AGENDA ITEMS

This item is to set the final consent and regular agenda, and for approval of the items listed on the consent agenda. All items on the consent agenda are approved by one action.

REGULAR AGENDA

1. Chair Report (Discussion)
2. Staff Report (Discussion)
3. Committee Members' Reports (Discussion)
4. Recommend Approval of Investment Policy to the Board of Directors (Action)
5. Quarterly Update on PCE's Investment Securities Account (Discussion)
6. Update on Audit Schedule (Discussion)
7. Review Preliminary Fiscal Year 2017-2018 Financial Statements (Discussion)

CONSENT AGENDA

8. Approval of the Minutes for the June 11, 2018 Meeting (Action)

Public records that relate to any item on the open session agenda for a board meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of the members of the Board. The Board has designated Peninsula Clean Energy's office, located at 2075 Woodside Road, Redwood City, CA 94061, for the purpose of making those public records available for inspection. The documents are also available on the PCEA's Internet Web site. The website is located at: <http://www.peninsulacleanenergy.com>.



Audit and Finance Committee Meeting Schedule 2019

Location: Peninsula Clean Energy, 2075 Woodside Road, Redwood City, CA 94061

Meeting Date:	Time:	Location:
February 5, 2019	10:00 am	Lobby conference room
May 7, 2019	10:00 am	Lobby conference room
June 11, 2019	10:00 am	Lobby conference room
September 10, 2019	10:00 am	Lobby conference room
October 8, 2019	10:00 am	Lobby conference room
November 12, 2019	10:00 am	Lobby conference room
Projected date for first meeting of 2020		
February 4, 2020	10:00 am	Lobby conference room



**PENINSULA CLEAN ENERGY
JPA Board Correspondence**

DATE: Sept. 6, 2018

BOARD MEETING DATE: Sept. 11, 2018

SPECIAL NOTICE/HEARING: None

VOTE REQUIRED: Majority Present

TO: Honorable Peninsula Clean Energy Authority Audit & Finance Committee

FROM: Jay Modi, Director of Finance & Admin, Peninsula Clean Energy

SUBJECT: Recommend Approval of Investment Policy to the Board of Directors (Action)

BACKGROUND:

As Peninsula Clean Energy (PCE) has been in operation for over one year, PCE has increased its financial net position. During PCE's initial start-up phase, the focus was on launching the program and minimizing customer opt-outs. Now that this rollout is completed and operations have commenced, PCE has accumulated unrestricted funds in the operating account. It is financially prudent for PCE to earn a return on these funds through investment in highly liquid and low risk investment securities.

At the last Audit and Finance Committee meeting, PCE staff presented a draft investment policy. After discussion by the Audit and Finance Committee, PCE staff have updated the investment policy statement to incorporate the feedback.

DISCUSSION:

The Director of Finance & Administration recommends that the Audit & Finance Committee recommend that the Board of Directors approve this Investment Policy.

FISCAL IMPACT:

The fees charged by NFP Retirement to assist with drafting the policy is \$7,500.

ATTACHMENTS

Investment Policy

PENINSULA CLEAN ENERGY (PCE)
STATEMENT OF INVESTMENT POLICY
September 2018

PURPOSE

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

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.

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."

OBJECTIVES

The primary objectives, in priority order, of the investment activities of PCE are

1. SAFETY – Preservation of principal is the foremost objective of Peninsula Clean Energy.
2. 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.

3. 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.

DELEGATION OF INVESTMENT AUTHORITY

Pursuant to Government Code Section 53607, the Chief Executive Officer, the Chief Financial Officer or Director of Finance and Administration 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 and the Board of Directors.

INVESTMENT PROCEDURES

The Chief Financial Officer, the Director of Finance and Administration, and Chief Executive Officer will recommend investment procedures for the operation of PCE’s investment program for approval by PCE’s Board of Directors.

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.

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 Director of Finance and Administration will research 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:

1. Provide written notification that they have read, and will abide by, PCE's Investment Policy.
2. 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.

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 Director of Finance and Administration or his/her designee will perform a timely review and decide whether to sell or hold the investment.

PCE will limit investments in any one non-government issuer, except investment pools and money market funds, to no more than 5% of market value regardless of security type.

Acceptable investments authorized for purchase on behalf of PCE are:

1. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. **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.
3. **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.
4. **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.

5. **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:
 - a. 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.
 - b. 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. PCE may purchase no more than 10% of the outstanding commercial paper of any single issuer. No more than 5% of the outstanding commercial paper investments can be invested in the Energy industry/sector.

6. **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.
7. **Demand Deposits - Collateralized**
8. **Passbook Savings Accounts - Collateralized**
9. **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 an NAV of \$1.00 per share due to market conditions or other factors. In such instances, the Director of Finance and Administration 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 holdings may not include auction rate securities or other securities that are not allowed under PCE's investment policy.

10. **Mutual Funds** must receive the highest ranking or the highest letter and numerical rating by at least two nationally recognized rating services and must abide by the same investment restrictions that apply to public entities in California [Section 53601(a-k, m-o)]. No more than 20% of PCE's investment portfolio may be invested in money market funds or mutual funds combined.
11. **Repurchase Agreements.** Overnight Repurchase Agreements shall be used solely as short-term investments not to exceed 3 days.
12. **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.
13. **County Investment Fund (San Mateo County Pool)** - 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 invests in the securities and obligations authorized in subdivisions to (q) 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:
 - a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - b. 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.

c. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

RESTRICTION ON INVESTMENT POLICIES AND PCE CONSTRAINTS

Section 53600 et. seq. of the State of California Government Code outlines the collateral requirements for certain types of investments and also limits the percentage of total investments which can be placed in certain classifications. Investments must meet the time schedules as indicated by the cash flow projections of PCE. 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, or enhance the rate of return.

INVESTMENT POOLS

The State pool and San Mateo County Pool invest in additional Government Code authorized investments that are not approved for *direct* purchase by the PCE's Board of Directors. These pools shall provide a current investment policy and monthly reports for review by the Chief Financial Officer and the Director of Finance and Administration. PCE is authorized to invest in these pools provided they are in conformance with their investment policies.

MATURITY LIMIT

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. Maximum Maturity for PCE's investments shall be limited to 2 years. Maximum Weighted Average Maturity is limited to 1 year.

INTERNAL CONTROL

The Chief Financial Officer and Director of Finance and Administration are 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 or 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.

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.

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. 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. Currently, the benchmark used for comparison purposes is the Bank of America Merrill Lynch 1-year U.S. Treasury index or other similar index.

REPORTING

The Director of Finance and Administration 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, and current market value for all securities. An annual investment report shall be provided to the PCE Board of Directors.

POLICY REVIEW

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

1. The California Government Code sections that regulate the investment and reporting of public funds.
2. The overall objectives of preservation of principal, sufficient liquidity, and a market return.

(Reminder of page intentionally left blank)

Approved by Board of Directors on _____

Janis Pepper, Chief Executive Officer

Eric Hall, Interim Chief Financial Officer

Jay Modi, Director of Finance and Administration

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.

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.

Certificates Of Deposit

1. **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.

Demand Deposits are funds held that can be withdrawn at any time without advance notice to the institution holding the funds.

Duration is a measure of the sensitivity of the price of a security or a portfolio of securities to a change in interest rates, typically stated in years.

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 \$65 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.

Local Government Investment Pools (LGIP) are investment tools similar to money market funds that allow public entities to invest funds.

Market Value is the price at which a security is trading and could presumably be purchased or sold.

Maturity is the date upon which the principal or stated value of an investment becomes due and payable.

Money Market Fund is a type of investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders. Eligible money market funds must strive to maintain a stable net asset value (NAV) of \$1 per share.

Principal describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Repurchase Agreements are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

Total Return is the time-weighted performance of a portfolio including interest income and any capital appreciation or depreciation as a result of interest rate movements.

U.S. Treasury Issues are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

1. **Treasury Bills** which are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one, three, six, and twelve month maturities.
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.



**PENINSULA CLEAN ENERGY
JPA Board Correspondence**

DATE: Sept. 6, 2018

BOARD MEETING DATE: Sept. 11, 2018

SPECIAL NOTICE/HEARING: None

VOTE REQUIRED: None

TO: Honorable Peninsula Clean Energy Authority Audit & Finance Committee

FROM: Jay Modi, Director of Finance & Admin, Peninsula Clean Energy

SUBJECT: Quarterly Update on PCE's Investment Securities Account

BACKGROUND:

In April 2018, Peninsula Clean Energy (PCE) created the Investment Securities Account with First Republic Bank and invested excess reserves of \$40 million in that account. Since then, as of August 31st, 2018, PCE has contributed \$55 million to the Securities Account.

The funds are invested in a laddered T-bills as preservation of the principal is the foremost objective of the PCE.

ATTACHMENT:

Investment Summary Report and Investment Portfolio Review

**PENINSULA CLEAN ENERGY
INVESTMENT SUMMARY & RETURN
FIRST REPUBLIC BANK**

	Aug-18
Beginning Balance	\$ 55,182,123
Contributions	\$ -
Disbursements	\$ -
Interest Income	\$ 54,266
Gain/(Loss)	\$ 39,543
Administrative Expenses	\$ -
Investment Expense	\$ -
Portfolio Increase/(Decrease)	<u>\$ 93,809</u>
Ending Balance	<u><u>\$ 55,275,932</u></u>
Time-Weighted Total Return	<u><u>0.17%</u></u>
Benchmark: Lipper 30-day MM Return	<u><u>0.16%</u></u>



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Investment Portfolio Review

Peninsula Clean Energy Authority

September 6, 2018



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MANAGED

	\$	%
Managed Assets	\$55,279,788	100.0%
Peninsula Clean Energy Authority	\$55,279,788	100.0%
Total	\$55,279,788	100.0%



Asset Allocation



ASSET TYPE	\$	%
Cash	\$55,279,788	100.0%
Total	\$55,279,788	100.0%

Portfolio Performance

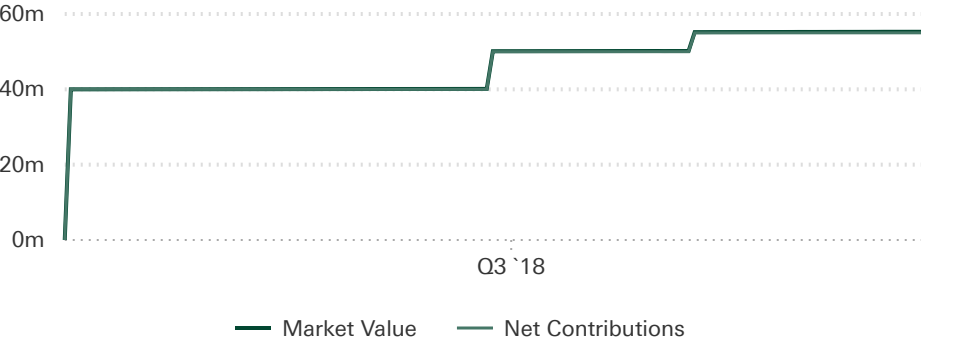
ASSET TYPE	QTD	YTD	ITD*
Cash	0.3%		0.6%
Total	0.3%		0.6%

Portfolio Activity

TRANSACTIONS	QTD	YTD	ITD*
Starting Value	\$50,124,931		\$0
Additions / Withdrawals	\$5,000,000		\$55,000,000
Gain / Loss	\$53,126		\$102,618
Income / Expenses	\$101,731		\$177,170
Change in Accrued Income	\$0		\$0
Current Value	\$55,279,788		\$55,279,788

*Inception date is 04-20-2018

Net Contributions vs. Market Value





ASSET TYPE	\$	%
Cash	\$55,279,788	100.0%
Money Market Funds (all)	\$3,054	0.0%
U.S. Treasury Bills	\$55,276,735	100.0%
Total	\$55,279,788	100.0%





						CURRENT VALUE + ACCRUED INCOME	GAIN / LOSS \$	GAIN / LOSS %	CURRENT YIELD	1 YR. PROJECTED CASHFLOW
MANAGED	TICKER SYMBOL	QTY	COST / SHARE	PRICE / SHARE	COST BASIS					
Managed Assets					\$55,177,170	\$55,279,788	\$102,618	0.2%	0.00%	\$26
Cash					\$55,177,170	\$55,279,788	\$102,618	0.2%	0.00%	\$26
Money Market Funds (all)					\$3,054	\$3,054	\$0	0.0%	0.00%	\$26
Money Market Fund 262006604	261991343	3,053.9	\$1.00	\$1.00	\$3,054	\$3,054	\$0	0.0%	0.00%	\$26
U.S. Treasury Bills					\$55,174,116	\$55,276,735	\$102,618	0.2%	0.00%	\$0
United States Treas Bills B/E DTD	-	13,830.0	\$995.36	\$997.65	\$13,765,862	\$13,797,500	\$31,638	0.2%	0.00%	\$0
United States Treas Bills B/E DTD	-	13,835.0	\$994.74	\$995.96	\$13,762,162	\$13,779,107	\$16,945	0.1%	0.00%	\$0
United States Treas Bills B/E DTD	-	13,910.0	\$995.07	\$995.12	\$13,841,448	\$13,842,119	\$672	0.0%	0.00%	\$0
United States Treas Bills B/E DTD 0.00 %	-	13,863.0	\$995.79	\$999.64	\$13,804,645	\$13,858,009	\$53,364	0.4%	0.00%	\$0
Total					\$55,177,170	\$55,279,788	\$102,618	0.2%	0.00%	\$26



In an up-and-down quarter, financial markets came under pressure from trade and political turmoil but strong U.S. economic results and earnings underpinned U.S. equity markets. The S&P 500 rose 3.4% for the quarter. In contrast, both developed international¹ and emerging market² equities saw losses in U.S. dollar terms.

Prevailing themes of the quarter were:

- U.S. economic growth rose and accelerated relative to the rest of the world. The U.S. dollar also continued to strengthen.
- Eyeing solid economic growth and ultra-low unemployment, the U.S. Federal Reserve began sounding more aggressive. As a result, interest rates rose and fixed-rate securities faced headwinds.
- U.S. equities, especially small cap stocks, outperformed stocks overseas through growth in corporate earnings.
- The stronger U.S. dollar and tariff talk pressured equities overseas with emerging markets hurt the most.

Strong U.S. Economy Fosters Interest Rate Increases

If the story of 2017 was synchronized global economic growth, the theme of the second quarter of 2018 was strong U.S. growth with mixed results overseas. Early readings showed brisk 3.8% growth in real U.S. GDP for the second quarter, up from 2.0% in the first quarter and 2.9% in the fourth quarter of 2017. Consumer and small business confidence stayed at multi-year highs during the quarter. U.S. retail sales accelerated during the quarter, rising 0.8% month-over-month in May alone and reaffirming that the soft patch experienced in the first quarter was probably transitory. All in all, we expect U.S. economic momentum to continue for the balance of the year.

Continued strength in the U.S. economy led the Federal Reserve (Fed) to become more hawkish over the quarter. As expected, the Fed raised the fed funds rate by 0.25% during its June meeting but it surprised investors with rhetoric suggesting the likelihood of a fourth interest rate hike in 2018, potentially followed by three rate hikes in 2019. The upbeat outlook helped boost interest rates along the yield curve (relative to the end of the first quarter).

Mixed Results for Fixed Income

Returns on high quality fixed income indexes were modest with the Bloomberg Barclays U.S. Govt/Credit Intermediate index finishing flat for the quarter. Cross currents in this market were strong demand from foreign investors for safe, U.S. securities offset by the increase in U.S. interest rates. Municipal bonds were particularly in demand due to their tax-exempt nature and, as a result, the benchmark ICE BofAML Municipal 1-10-year AAA-A Index returned 0.7% for the quarter. Further, U.S. economic strength and rising oil prices helped high-yield bonds register gains since these securities tend to do well during economic good times.

During the second quarter, short-term yields rose (measured by the 2-year Treasury bond yield), compounding the increase seen during the first quarter and driving the U.S. yield curve flatter. Under textbook economics, a flat or downwardly sloping yield curve is historically a sign for a downturn in the economy. Since the index of leading economic indicators is up over 6% from a year ago, we don't see a recession in second half 2018 to early 2019. Instead, we think the long-end of the yield curve is artificially low due to the negative interest rate policies in Japan and the Eurozone. These circumstances make U.S. Treasuries attractive relative to their foreign peers.

¹ MSCI EAFE Index

² MSCI Emerging Markets Index



U.S. Equities Navigate the Unsettled Trade Environment

U.S. equities struggled between hardy fundamentals and potential trade-policy risks for much of the second quarter but finished on a positive tone. The S&P 500 gained 3.4% for the quarter while the Russell 2000 gained 7.8%. Small-cap stocks continued to rally on the vigorous outlook for the U.S. economy and their relative insulation from trade-related fears. So far, the tariffs proposed by the U.S. represent roughly 0.4% of the nation's gross domestic product (GDP); a meaningful number but not enough to threaten the domestic economy.

Earnings for the S&P 500, as a whole, increased by 24.6% in the first quarter on a year-over-year basis, according to FactSet—the healthiest increase in corporate profits since 2011. While the strong bottom-line gains partly reflected the recent cuts in corporate tax rates, we are pleased to see healthy revenue increases driven by positive momentum in the global economy.

Trade tensions weighed on U.S. markets throughout the quarter. President Trump is working to implement his long-standing protectionist philosophy and the policies which were central to his election campaign. President Trump clearly intends to change the way the U.S. does business with the rest of the world. With tailwinds of low unemployment and brisk growth many economists view the potential economic damage as limited in dollar terms, since the total proposed tariffs are small at this time relative to overall U.S. trade and the aggregate size of the domestic economy.

While we think some tariffs are likely, an all-out trade war is not our base case. In our view, an outright trade war would threaten financial markets since trade represents a large share of the activities of multinational corporations. Plus, the trade policy debate is only one part of the aggregate relationship between the U.S. and the rest of the world. The U.S. needs foreign investment to sustain its fiscal deficits. Therefore, we advise long-term investors to not get too caught up in the media emotions over trade policy. Most likely, the impacts would be uneven with some sectors affected more strongly than others. Nonetheless, equity markets could stay unsettled through the mid-term elections in November.

Developed International Markets Diverge and Face Uncertainty

The MSCI EAFE index fell by -1.2% (in U.S. dollar terms) during the second quarter, bringing the year-to-date return to -2.7%.

In Europe, a shift in monetary policy sent the euro tumbling against the U.S. dollar, accounting for much of the losses suffered by dollar-based investors during the quarter. The European Central Bank (ECB) announced it would not consider raising interest rates until mid-to late 2019, a longer timeline than previously expected. That news sent the euro down against the dollar as investors adjusted to the idea that the era of negative interest rates won't be ending anytime soon.

Political turmoil also weighed on European markets. A new "Eurosceptic" government is popular in Italy and raised investor fears that Europe's third-largest economy may consider leaving the European Union. Meanwhile, Spain ousted its prime minister amid a political fundraising scandal. Rising trade tensions added to the overall level of uncertainty, given Europe's heavily export-dependent economy.

Japanese equities rose despite some signs of economic difficulties. Gross domestic product shrank 0.6% in the January-March quarter period, after nine consecutive quarters of growth. In June, the Bank of Japan's policy board essentially conceded the goal of healthy 2% annual inflation is out of reach for the near term. Bank of Japan (BOJ) leaders also said they must maintain an ultra-loose monetary policy, since labor markets are tightening without prices rising. The yen fell against the U.S. dollar, giving a boost to export-driven corporations. Stocks in Australia also advanced.



Emerging Markets Bear the Brunt of Trade Rhetoric

A combination of tariffs, a stronger U.S. dollar, and rising U.S. interest rates all served to put pressure on emerging market equities such that the MSCI Emerging Markets index posted a -8.0% for the quarter. Tariffs and trade concerns especially weighed on Chinese equities, while countries with large current account deficits, such as Turkey and Argentina, suffered sharp currency declines and equity market declines as the U.S. dollar continued to strengthen and U.S. interest rates continued to rise. Brazilian equities plunged amidst political uncertainty and a truck driver strike which cut into economic activity across the country.

Conclusion

The synchronized nature of the global investment landscape weakened quarter-over-quarter with U.S. assets in favor relative to the rest of the world. U.S. economic reports have been strong and Congress and the Trump administration continue to pump fiscal stimulus into an economy near full employment. We think this allows the business cycle to stretch a bit longer, but raises the risks that the Fed tightens too far too fast. We think the media is overestimating the likelihood of a trade war. However, we are watching U.S. inflation, the U.S. dollar, and business confidence for early signs that the benign macroeconomic climate might be waning. Given the late stage of the economic cycle and current monetary tightening, a balanced approach to risk and diversification is increasingly important.



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**PENINSULA CLEAN ENERGY
JPA Board Correspondence**

DATE: Sept. 6, 2018

BOARD MEETING DATE: Sept. 11, 2018

SPECIAL NOTICE/HEARING: None

VOTE REQUIRED: None

TO: Honorable Peninsula Clean Energy Authority Audit & Finance Committee

FROM: Jay Modi, Director of Finance & Admin, Peninsula Clean Energy

SUBJECT: Update on Audit Schedule (Discussion)

RECOMMENDATION:

Update on Audit Schedule (Discussion).

BACKGROUND:

Pisenti and Brinker has started the audit of the financials statements of Peninsula Clean Energy (PCE) for the fiscal year ending June 30, 2018. The audit started in May 2018 and is expected to be completed by October 2018.

DISCUSSION:

The Director of Finance & Administration is providing an update on the following Audit Schedule.

FY 2017-18 Tentative Audit Schedule	Date	Party	Status
Provide audit document list	31-May	P&B	✓
Perform preliminary audit procedures	25-Jun	P&B	✓
Communication with audit committee	20-Jul	P&B / A&FC	✓
Send bank confirmations	26-Jul	P&B/PCE	✓
Preliminary Trial Balance	15-Aug	Maher/PCE	✓
Draft Unaudited Financials	30-Aug	Maher/PCE	✓
Fieldwork	9/1-9/30	P&B	
Review Draft Unaudited Financials	11-Sep	A&FC	
Trial Balance and Financial Statements finalized	21-Sep	Maher/PCE	
Approve Draft Audited Financials	9-Oct	A&FC	
Approve Audited Financials	25-Oct	BOD	

FISCAL IMPACT:

The cost of the audit for FY 2017-2018 is \$19,600.

ATTACHMENTS

N/A



**PENINSULA CLEAN ENERGY
JPA Board Correspondence**

DATE: September 5, 2018

BOARD MEETING DATE: September 11, 2018

SPECIAL NOTICE/HEARING: None

VOTE REQUIRED: None

TO: Honorable Peninsula Clean Energy Authority Audit and Finance Committee

FROM: Jan Pepper, Chief Executive Officer, Peninsula Clean Energy
Jay Modi, Director of Finance & Admin, Peninsula Clean Energy

SUBJECT: Review Preliminary Fiscal Year 2017-2018 Financial Statements (Discussion)

RECOMMENDATION:

Review the preliminary Fiscal Year 2017-2018 Financial Statements

BACKGROUND:

The preliminary financial statements have been prepared for the committee's review.

FISCAL IMPACT:

No fiscal impact

ATTACHMENTS

A. Preliminary Fiscal Year 2017-2018 Financial Statements

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 66,689,412	\$ 18,881,698
Accounts receivable, net of allowance	23,091,118	21,124,838
Other receivables	128,806	33,817
Accrued revenue	14,712,826	11,870,119
Prepaid expenses	2,198,024	224,524
Deposits	3,470,403	1,425,050
Total current assets	<u>110,290,589</u>	<u>53,560,046</u>
Noncurrent assets		
Capital assets, net of depreciation	302,333	18,913
Deposits	1,193,560	220,611
Restricted cash - debt reserve	-	1,500,000
Total noncurrent assets	<u>1,495,893</u>	<u>1,739,524</u>
Total assets	<u>111,786,482</u>	<u>55,299,570</u>
LIABILITIES		
Current liabilities		
Accounts payable	811,121	756,495
Accrued cost of electricity	22,914,791	24,387,829
Accrued interest payable	-	34,130
Accrued payroll and related liabilities	157,216	116,005
Other accrued liabilities	5,000	-
Supplier security deposits	1,190,000	50,000
User taxes and energy surcharges due to other govts	834,577	688,782
Loan payable to County of San Mateo	-	1,500,000
Total current liabilities	<u>25,912,705</u>	<u>27,533,241</u>
Noncurrent liabilities		
Loan payable to bank	-	3,000,000
Loan payable to County of San Mateo	-	2,980,800
Supplier security deposits	508,287	75,000
Total noncurrent liabilities	<u>508,287</u>	<u>6,055,800</u>
Total liabilities	<u>26,420,992</u>	<u>33,589,041</u>
NET POSITION		
Net investment in capital assets	302,333	18,913
Unrestricted	85,063,157	21,691,616
Total net position	<u>\$ 85,365,490</u>	<u>\$ 21,710,529</u>

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PERIODS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Electricity sales, net	\$ 243,139,132	\$ 92,906,457
Green electricity premium	1,467,553	222,459
Electricity sales for resale	123,500	-
Miscellaneous income	7,524	-
Total operating revenues	<u>244,737,709</u>	<u>93,128,916</u>
OPERATING EXPENSES		
Cost of electricity	170,134,856	64,500,795
Staff compensation and benefits	2,171,487	1,017,677
Data manager	4,069,698	1,471,147
Service fees - PG&E	1,437,448	481,301
Consultants and other professional fees	511,915	342,413
Legal	1,183,569	914,070
Communications and noticing	584,827	1,208,403
General and administration	820,895	164,227
Depreciation	55,679	3,733
Total operating expenses	<u>180,970,374</u>	<u>70,103,766</u>
Operating income (loss)	<u>63,767,335</u>	<u>23,025,150</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	100,706	9,443
Unrealized investment gain/(loss)	49,760	-
Interest and related expense	(262,840)	(279,835)
Total nonoperating revenues (expenses)	<u>(112,374)</u>	<u>(270,392)</u>
CHANGE IN NET POSITION	63,654,961	22,754,758
Net position at beginning of period	<u>21,710,529</u>	<u>(1,044,229)</u>
Net position at end of period	<u>\$ 85,365,490</u>	<u>\$ 21,710,529</u>

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENT OF CASH FLOWS
PERIODS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	\$ 239,839,562	\$ 60,414,492
Receipts from sales for resale	92,000	-
Receipts from miscellaneous income	7,524	-
Receipts from supplier security deposits	1,573,287	125,000
Tax and surcharge receipts from customers	4,068,556	1,066,953
Payments to purchase electricity	(173,625,040)	(40,345,139)
Payments for staff compensation and benefits	(2,135,190)	(929,318)
Payments for data manager	(4,060,928)	(1,934,534)
Payments for service fees - PG&E	(1,463,469)	-
Payments for consultants and other professional fees	(480,109)	-
Payments for legal	(1,095,435)	(914,070)
Payments for communications and noticing	(650,764)	(1,125,252)
Payments for general and administration	(813,507)	(163,283)
Tax and surcharge payments to other governments	(3,964,625)	(658,703)
Net cash provided (used) by operating activities	<u>57,291,862</u>	<u>15,536,146</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal payments on loan	(7,480,800)	1,421,333
Deposits and collateral paid	(6,547,771)	(1,645,821)
Deposits and collateral received	3,426,120	-
Interest and related expense payments	(296,970)	(248,967)
Net cash provided (used) by non-capital financing activities	<u>(10,899,421)</u>	<u>(473,455)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(235,751)</u>	<u>(22,646)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	<u>151,024</u>	<u>8,885</u>
Net cash provided (used) by investing activities	<u>151,024</u>	<u>8,885</u>
Net change in cash and cash equivalents	46,307,714	15,048,930
Cash and cash equivalents at beginning of period	20,381,698	3,832,768
Cash and cash equivalents at end of period	<u>\$ 66,689,412</u>	<u>\$ 18,881,698</u>



**REGULAR MEETING of the Audit and Finance Committee
of the Peninsula Clean Energy Authority (PCEA)
Monday, June 11, 2018
MINUTES**

2075 Woodside Road, Redwood City, CA
10:00 a.m.

CALL TO ORDER

Meeting was called to order at 10:13 a.m.

ROLL CALL

Present: Donna Colson, City of Burlingame, *Chair*
Carlos Romero, City of East Palo Alto
Laurence May, Town of Hillsborough

Absent: Carole Groom, County of San Mateo
Jeff Aalfs, Town of Portola Valley

Staff: Jan Pepper, Chief Executive Officer, Peninsula Clean Energy
Jay Modi, Director of Finance and Administration, Peninsula Clean Energy
Tina Caratan, Interim CFO
Anne Bartoletti, Board Clerk, Peninsula Clean Energy

A quorum was established.

PUBLIC COMMENT

No public comment.

Donna Colson—Chair—announced that agenda item 2 was being moved up for discussion.

SPECIAL MEETING AGENDA

- 2) RECOMMEND APPROVAL OF FINAL DRAFT FISCAL YEAR 2018-2019 BUDGET AND 5-YEAR PROJECTIONS**

Jay Modi—Director of Finance and Administration—handed out a final draft of the fiscal year 2018-2019 budget with 5-year projections. He reported that this budget model load forecast is based on PCE's actual January 2017 to January 2018 data, so it should provide a more accurate prediction of load for the next fiscal year. The Committee discussed projected revenues, credit ratings, and the impact of different rate scenarios and industry stressors.

Motion Made / Seconded: May / Romero

Motion passed unanimously 3-0 (Absent: Carole Groom, Jeff Aalfs)

1) REVIEW DRAFT FINANCIAL RESERVES POLICY

Jan Pepper reported that the Financial Reserves Policy is being proposed based upon the evaluation criteria outlined by Moody's in order for PCE to position itself to receive an investment grade credit rating. The Committee discussed financial benchmarks, rate stabilization, operating reserves, and operating expenses.

3) APPROVAL OF THE MINUTES FOR THE MAY 8, 2018 MEETING

Motion Made / Seconded: May / Romero

Motion passed unanimously 3-0 (Absent: Carole Groom, Jeff Aalfs)

ADJOURNMENT

Meeting was adjourned at 11:26 a.m.