



**REGULAR MEETING of the Audit and Finance Committee of the  
Peninsula Clean Energy Authority (PCEA)  
Wednesday, November 13, 2019  
10:00 a.m.**

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

*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](mailto: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. Recommend Approval of the Audited Financial Statements for Fiscal Year 2018-2019 (Action)
4. Review Financial Reports and Investment Summary for First Quarter 2019-2020 (Discussion)
5. Approve Audit and Finance Committee Meeting Schedule for 2020 (Action)
6. Committee Members' Reports (Discussion)

## **CONSENT AGENDA**

7. Approval of the Minutes for the June 10, 2019 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>.



**PENINSULA CLEAN ENERGY  
JPA Board Correspondence**

**DATE:** October 28, 2019

**BOARD MEETING DATE:** November 13, 2019

**SPECIAL NOTICE/HEARING:** None

**VOTE REQUIRED:** None

**TO:** Honorable Peninsula Clean Energy Authority Audit and Finance Committee

**FROM:** Andy Stern, Chief Financial Officer, Peninsula Clean Energy

**SUBJECT:** Recommend Approval of the Audited Financial Statements for Fiscal Year 2018-2019 (Action)

**RECOMMENDATION:**

Recommend Approval of the Audited Financial Statements for Fiscal Year 2018-2019

**BACKGROUND:**

The financial statements for Fiscal Year 2018-2019 have been prepared by PCE management and audited by the independent auditor Pisenti & Brinker. The audit work began in July 2019 and the financial statements are ready for the Audit and Finance Committee's review. Upon recommendation of approval of these statements, these will be presented to the Board of Directors for their final approval.

**FISCAL IMPACT:**

No fiscal impact

**Handouts**

A. Fiscal Year 2018-2019 Audited Financial Statements

FINANCIAL STATEMENTS  
FISCAL YEARS ENDED JUNE 30, 2019 AND 2018  
WITH REPORT OF  
INDEPENDENT AUDITORS



**PENINSULA**  
**CLEAN ENERGY**

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**PENINSULA CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2019 AND 2018**

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, 2019, and 2018. 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. PCE was established to provide electric power at competitive costs 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, as well as promoting long-term electric rate stability and energy reliability for residents and businesses. PCE serves twenty-one jurisdictions including the cities and towns of 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, in addition to the unincorporated areas of San Mateo County. Governed by a board of directors (Board) consisting of elected representatives from each jurisdiction (Board), PCE 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.

Prior to the creation of Peninsula Clean Energy as a JPA, the County of San Mateo managed the financial and administrative activities related to the formation of this community choice aggregation (CCA) program. Pursuant to the JPA, PCE accepted an obligation to reimburse the County of San Mateo for specified costs to initiate the entity and its programs which were incurred prior to the JPA agreement. PCE fully reimbursed the County for all of those costs in December 2017. In October 2016, PCE began providing service to its first 79,000 customer accounts as part of its initial enrollment phase. PCE completed its customer enrollment in April 2017 and as of June 30, 2019, PCE serves approximately 300,000 customer accounts.



**PENINSULA CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**Financial Reporting**

PCE presents its financial statements as an enterprise fund under the economic resources measurement focus and the accrual basis of accounting. These statements were prepared 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 discussion and analysis, which provides an overview of operations.
- The basic financial statements:
  - The *Statements of Net Position* includes 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 revenue 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 investing activities.
  - Notes to the Basic Financial Statements, which provide additional details and information related to the basic financial statements.

**PENINSULA CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**FINANCIAL HIGHLIGHTS**

The following table is a summary of PCE's assets, liabilities, and net position as of June 30:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Current assets	\$172,273,785	\$110,290,589	\$ 53,560,046
Noncurrent assets			
Capital assets, net	335,445	302,333	18,913
Other noncurrent assets	135,355	1,193,560	1,720,611
Total noncurrent assets	470,800	1,495,893	1,739,524
Total assets	172,744,585	111,786,482	55,299,570
Current liabilities	31,048,989	25,912,705	27,533,241
Noncurrent liabilities	1,556,468	508,287	6,055,800
Total liabilities	32,605,457	26,420,992	33,589,041
Net position			
Investment in capital assets	335,445	302,333	18,913
Restricted for security collateral	13,165,799	2,000,000	-
Unrestricted	126,637,884	83,063,157	21,691,616
Total net position	\$140,139,128	\$ 85,365,490	\$ 21,710,529

**Current assets**

Current assets reached \$172,274,000 by the end of fiscal year 2018-19 and were comprised of the following major categories: cash and restricted cash, accounts receivable, accrued revenue, investments, prepaid expenses and other deposits.

Accounts receivable reflects invoices that have been delivered to customers that remain unpaid at the end of the period. Accrued revenue accounts for electricity use by PCE customers before invoicing to those customers has occurred. Prepaid expenses and deposits consist mostly of purchases of electricity and capacity for delivery after the fiscal year. Fiscal year 2017-18 was the first full year PCE provided electricity to customers. Since service to customers began, PCE has operated at a surplus, which has been the source of most of the growth of current assets.

**PENINSULA CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**Capital assets**

Capital assets increased to \$335,000 at the end of fiscal year 2018-19 as a result of purchases of furniture, equipment, and leasehold improvements. Capital assets are reported net of depreciation. PCE does not own assets used for electricity generation or distribution.

**Other noncurrent assets**

Other noncurrent assets decreased from \$1,194,000 to \$135,000 at the end of fiscal year 2018-19. This account 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) and collateral held by PCE from energy suppliers.

**Current liabilities**

Current liabilities of \$31,049,000 at the end of fiscal year 2018-19 increased by \$5,136,000 from the prior year. For both years, current liabilities consist primarily of the cost of electricity delivered to customers that is not yet due to be paid by PCE. Other components of current liabilities as of June 30, 2019, include trade accounts payable, security deposits due to energy suppliers, and user taxes and surcharges due to other governments.

**Noncurrent liabilities**

Other noncurrent liabilities increased by \$1,048,000 at the end of fiscal year 2018-19 as compared to the end of the prior year. This increase reflects additions to cash deposits made with energy providers held as collateral for energy purchases. These deposits will be returned by PCE at the completion of the related contract or as other milestones are met. The remaining balance is comprised of various deposits for regulatory and other operating purposes.

**PENINSULA CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2019 AND 2018**

The following table is a summary of PCE's results of operations in the year ended June 30:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Operating revenues	\$ 259,781,823	\$ 244,737,709	\$ 93,128,916
Interest and other income	2,074,258	150,466	9,443
Total income	261,856,081	244,888,175	93,138,359
Operating expenses	(206,912,110)	(180,970,374)	(70,103,766)
Interest and related expenses	(170,333)	(262,840)	(279,835)
Total expenses	(207,082,443)	(181,233,214)	(70,383,601)
Change in net position	<u>\$ 54,773,638</u>	<u>\$ 63,654,961</u>	<u>\$ 22,754,758</u>

**Operating revenues**

PCE's customer base was stable throughout 2018-19, with approximately 300,000 customers enrolled.

Year-over-year changes in interest income reflect higher average balances in interest-earning accounts and an increase in overall interest rates.

**Operating expenses**

PCE's largest expense for fiscal years 2017-18 and 2018-19 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. Expenses for staff compensation, contracting services, and other general and administrative expenses increased in 2018-19 from 2017-18 as the organization continued to grow to support its business demands.

**PENINSULA CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**ECONOMIC OUTLOOK**

PCE's mission is to reduce greenhouse gas emissions and offer customer choice at competitive rates. The three key contributors to greenhouse gas emissions are electricity, transportation, and buildings.

In December 2017, PCE published its first Integrated Resource Plan (IRP), which outlines the procurement strategy to fulfill the State's regulatory mandates, while also accelerating the State's decarbonization goals. The IRP describes PCE's approach to mitigating risk by diversifying its power portfolio through contract term length, project ownership, location, technology, size, and additionality (increasing "steel in the ground").

PCE is developing energy programs to reduce greenhouse gas emission from transportation. "Ride and Drive" events to familiarize consumers with electric vehicles are being held along with electric vehicle dealer promotions to reduce the costs of these vehicles. PCE has also approved and funded grants for community pilots to advance PCE's mission to reduce greenhouse gas emissions, support PCE's workforce policy, and serve a high number of PCE customers.

**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,

Janis Pepper, Chief Executive Officer

## **BASIC FINANCIAL STATEMENTS**

**PENINSULA CLEAN ENERGY AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 48,873,644	\$ 64,689,412
Accounts receivable, net of allowance	24,061,873	23,091,118
Investments	65,195,764	-
Other receivables	230,096	128,806
Accrued revenue	16,161,421	14,712,826
Prepaid expenses	4,309,618	2,198,024
Deposits	275,570	3,470,403
Restricted cash	13,165,799	2,000,000
Total current assets	<u>172,273,785</u>	<u>110,290,589</u>
Noncurrent assets		
Capital assets, net of depreciation	335,445	302,333
Deposits	135,355	1,193,560
Total noncurrent assets	<u>470,800</u>	<u>1,495,893</u>
Total assets	<u>172,744,585</u>	<u>111,786,482</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	1,048,410	816,121
Accrued cost of electricity	24,428,956	22,914,791
Accrued payroll and benefits	218,425	157,216
Other accrued liabilities	170,338	-
Security deposits - energy suppliers	4,320,987	1,190,000
User taxes and energy surcharges due to other governments	861,873	834,577
Total current liabilities	<u>31,048,989</u>	<u>25,912,705</u>
Noncurrent liabilities		
Security deposits - energy suppliers	1,556,468	508,287
Total liabilities	<u>32,605,457</u>	<u>26,420,992</u>
<b>NET POSITION</b>		
Investment in capital assets	335,445	302,333
Restricted for security collateral	13,165,799	2,000,000
Unrestricted	126,637,884	83,063,157
Total net position	<u>\$ 140,139,128</u>	<u>\$ 85,365,490</u>

**PENINSULA CLEAN ENERGY AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES</b>		
Electricity sales, net	\$ 257,336,291	\$ 243,270,156
Green electricity premium	2,445,532	1,467,553
Total operating revenues	<u>259,781,823</u>	<u>244,737,709</u>
<b>OPERATING EXPENSES</b>		
Cost of electricity	194,034,947	170,134,856
Contract services	8,389,878	7,787,457
Staff compensation	3,075,990	2,171,487
General and administration	1,336,933	820,895
Depreciation	74,362	55,679
Total operating expenses	<u>206,912,110</u>	<u>180,970,374</u>
Operating income	<u>52,869,713</u>	<u>63,767,335</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Miscellaneous income	35,679	-
Interest and investment income	2,038,579	150,466
Interest and related expense	(170,333)	(262,840)
Total nonoperating revenues (expenses)	<u>1,903,925</u>	<u>(112,374)</u>
<b>CHANGE IN NET POSITION</b>	54,773,638	63,654,961
Net position at beginning of year	85,365,490	21,710,529
Net position at end of year	<u>\$ 140,139,128</u>	<u>\$ 85,365,490</u>



**PENINSULA CLEAN ENERGY AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 261,689,317	\$ 244,007,642
Receipts from supplier security deposits	4,229,168	1,573,287
Payments to suppliers for electricity	(194,452,975)	(173,625,040)
Payments to suppliers for other goods and services	(9,594,065)	(8,564,212)
Payments for staff compensation	(3,009,867)	(2,135,190)
Payments of taxes and surcharges to other governments	(4,263,796)	(3,964,625)
Net cash provided by operating activities	<u>54,597,782</u>	<u>57,291,862</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Deposits and collateral received	10,553,402	3,426,120
Deposits and collateral paid	(6,300,364)	(6,547,771)
Principal payments on loans	-	(7,480,800)
Interest and related expense payments	(170,333)	(296,970)
Net cash provided (used) by non-capital financing activities	<u>4,082,705</u>	<u>(10,899,421)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payments to acquire capital assets	(66,448)	(235,751)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income received	1,709,030	151,024
Sale of investments	34,154,969	-
Purchase of investments	(99,128,007)	-
Net cash provided (used) by investing activities	<u>(63,264,008)</u>	<u>151,024</u>
Net change in cash and cash equivalents	(4,649,969)	46,307,714
Cash and cash equivalents at beginning of year	66,689,412	20,381,698
Cash and cash equivalents at end of year	<u>\$ 62,039,443</u>	<u>\$ 66,689,412</u>
<b>Reconciliation to the Statement of Net Position</b>		
Cash and cash equivalents (unrestricted)	\$ 48,873,644	\$ 64,689,412
Restricted cash	13,165,799	2,000,000
Cash and cash equivalents	<u>\$ 62,039,443</u>	<u>\$ 66,689,412</u>

**PENINSULA CLEAN ENERGY AUTHORITY  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2019 AND 2018**

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>2019</u>	<u>2018</u>
Operating income	\$ 52,869,713	\$ 63,767,335
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	74,362	55,679
Revenue adjusted for uncollectible accounts	(398,278)	859,130
Nonoperating miscellaneous income	35,679	
(Increase) decrease in:		
Accounts receivable	(572,477)	(2,825,410)
Other receivables	5,533	(95,547)
Accrued revenue	(1,448,595)	(2,842,707)
Prepaid expenses	(2,111,594)	(1,973,500)
Increase (decrease) in:		
Accounts payable	196,264	59,312
Accrued cost of electricity	1,514,164	(1,472,723)
Accrued payroll and benefits	61,209	41,211
Other accrued liabilities	165,338	
User taxes due to other governments	27,296	145,795
Security deposits from energy suppliers	4,179,168	1,573,287
Net cash provided by operating activities	<u>\$ 54,597,782</u>	<u>\$ 57,291,862</u>

**PENINSULA CLEAN ENERGY AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

Peninsula Clean Energy Authority (PCE) is a joint powers authority created on February 29, 2016. As of June 30, 2019, parties to its Joint Powers Agreement consist of the following local governments.

<u>County</u>	<u>Cities and Towns</u>	
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

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 the use of renewable sources under the Community Choice Aggregation Program under 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.

**PENINSULA CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**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.

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

**CASH AND CASH EQUIVALENTS**

For purposes of the Statements of Cash Flows, PCE has defined 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. Restricted cash reported on the Statements of Net Position includes collateral on letters of credit, as well as a required minimum balance to be maintained in one of PCE's bank accounts.

**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.

**CAPITAL ASSETS AND DEPRECIATION**

PCE's policy is to capitalize furniture and equipment valued over \$1,000 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.

**PENINSULA CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**NET POSITION**

Net position is presented in the following components:

*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, 2019 and 2018.

*Restricted:* This component of net position consists of constraints placed on net asset use by external creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*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 NON-OPERATING REVENUES**

Operating revenues include revenue derived from the provision of energy to retail customers and wholesale customers.

Interest income is considered “non-operating revenue.”

**REVENUE RECOGNITION**

PCE recognizes revenue on the accrual basis of accounting. 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.

**PENINSULA CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**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 to acquire 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), 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. An expense is recognized at the point that the cost of the Certificate is due and payable to the supplier.

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 fully pays its obligation for employee compensation, 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 absences, 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.

**PENINSULA CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**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 accounts in several banks. California Government Code Section 16521 requires banks to collateralize 110% of deposits of public funds in excess of the FDIC limit of \$250,000. PCE has no deposit or investment policy that addresses a specific type of risk that would impose restrictions beyond this requirement. Accordingly, the amount of risk is not disclosed. PCE monitors its risk exposure on an ongoing basis.

**3. INVESTMENTS**

During the year ended June 30, 2019, PCE purchased short-term investments with an original maturity of three months or more. Below is a summary of these investments at fair value as of June 30, 2019.

U.S. Treasury Securities	\$ 46,541,093
Corporate bonds	<u>18,654,671</u>
Total short-term securities	<u>\$ 65,195,764</u>

The maturity dates for the U.S. Treasury Securities range from approximately half of a month to two months as of June 30, 2019. The maturity dates for the corporate bonds range from approximately three months to six and a half months as of June 30, 2019.

**PENINSULA CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**3. INVESTMENTS (continued)**

**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; 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, 2019, PCE's investments are considered Level 1 in inputs.

**CUSTODIAL CREDIT RISK**

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. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in PCE's name, and held by the counterparty. PCE's investment securities are not exposed to custodial credit risk because all securities are held by PCE's custodial bank in PCE's name.

**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.



**PENINSULA CLEAN ENERGY AUTHORITY**  
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**YEARS ENDED JUNE 30, 2019 AND 2018**

**4. ACCOUNTS RECEIVABLE**

Accounts receivable were as follows at June 30:

	<b>2019</b>	<b>2018</b>
Accounts receivable from customers	\$24,849,821	\$24,277,344
Allowance for uncollectible accounts	(787,948)	(1,186,226)
Net accounts receivable	<u>\$24,061,873</u>	<u>\$23,091,118</u>

PCE records an allowance for uncollectible accounts as invoices are issued. The majority of account collections occur within the first few months following customer invoicing. 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.

**5. CAPITAL ASSETS**

Capital asset activity for the years ended June 30, 2018, and 2019, was as follows:

	<b>Furniture &amp; Equipment</b>	<b>Leasehold Improvements</b>	<b>Accumulated Depreciation</b>	<b>Total</b>
Balances at June 30, 2017	\$ 22,646	\$ -	\$ (3,733)	\$ 18,913
Additions	274,996	64,103	(55,679)	283,420
Balances at June 30, 2018	297,642	64,103	(59,412)	302,333
Additions	66,908	40,566	(74,362)	33,112
Balances at June 30, 2019	<u>\$ 364,550</u>	<u>\$ 104,669</u>	<u>\$ (133,774)</u>	<u>\$ 335,445</u>

**PENINSULA CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2019 AND 2018**

**6. DEBT**

**Loans payable to the County of San Mateo**

In June 2016, PCE entered into two agreements with the County of San Mateo. The purpose of one of the agreements was to reimburse the County for services, costs, and expenses incurred to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs. The agreement allowed for the repayment to be in the form of a loan totaling \$2,981,000. Of this loan, \$300,000 did not bear interest. The remainder, which was received in multiple draws, accrued interest based on the San Mateo County Pooled Investment Fund earnings rate. Principal and interest payments were not required until July 1, 2021. In December 2017, PCE fully repaid this loan with the County of San Mateo.

The second agreement with the County of San Mateo provided for collateral needed to support a loan with Barclays Bank. The agreement allowed for up to \$6,000,000 to be used as collateral, which was initially determined at 50% of the principal drawn from Barclays Bank loan. In June 2016, PCE had drawn \$1,500,000 from this County of San Mateo loan for this purpose. This loan accrued interest at the greater of (1) the San Mateo County Pooled Investment Fund earnings rate or (2) the actual interest earned on the amount drawn. Principal payments, plus interest, were due on the earlier of (1) two years from the date each portion is received by PCE or (2) ten days after the release of collateral by Barclays Bank. In December 2017, PCE fully repaid this loan with the County of San Mateo.

**Loan payable to Barclays Bank**

In June 2016, PCE arranged to borrow up to \$12 million from Barclays Bank to provide cash to pay for energy purchases and operating expense which are due before revenue is to be collected from customers. The loan was secured by cash deposits of fifty percent of the outstanding loan. Principal could be drawn as needed and interest accrued on the outstanding balance and was payable each month and computed at LIBOR plus 3.1%. In December 2017, PCE fully repaid this loan with Barclays Bank. PCE continues to maintain a \$12 million line of credit as a term loan with Barclays Bank with no amount outstanding. The commitment fee to maintain the term loan from January 1, 2017 to and including December 8, 2017 was 1.925% per annum and the commitment fee from December 9, 2017 through June 30, 2019 was 1.40%, and from July 1, 2019 thereafter is .75% per annum. The termination date is in June 2021. In December 2017, PCE fully repaid this loan with the Barclays Bank.

**PENINSULA CLEAN ENERGY AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**6. DEBT (continued)**

Loan principal activity and balances were as follows for the following direct borrowings:

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Year ended June 30, 2018				
County of San Mateo (\$2.98M)	\$ 2,980,800		\$(2,980,800)	\$ -
County of San Mateo (\$6M)	1,500,000		(1,500,000)	-
Barclays PLC	3,000,000		(3,000,000)	-
Total	<u>\$ 7,480,800</u>	<u>\$ -</u>	<u>\$(7,480,800)</u>	<u>\$ -</u>
Amounts due within one year				-
Amounts due after one year				<u>\$ -</u>

**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 (IRC 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 the Massachusetts Mutual Life Insurance Company. At June 30, 2019, PCE had 19 plan participants. PCE is required to contribute 6% of covered payroll and up to an additional 4% of covered payroll as a match to employee contributions. PCE recorded expenses of approximately \$237,000 and \$162,000 during the years ended June 30, 2019, and June 30, 2018, respectively for that contribution. Plan provisions and contribution requirements as they apply to PCE are established and may be amended by the Board of Directors.

**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 ended June 30, 2019, PCE purchased liability and property insurance from commercial carriers. Coverage includes property, general liability, errors and omissions and non-owned automobile. 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 \$10,000.

**PENINSULA CLEAN ENERGY AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**9. PURCHASE COMMITMENTS**

In the ordinary course of business, PCE enters into various power purchase agreements in order 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.

PCE had outstanding non-cancelable power purchase-related commitments of approximately \$875.2 million for energy that has not yet been provided under power purchase agreements that continue to December 2045.

The following table details the obligations on existing energy, renewable contracts, and resource adequacy (RA) as of June 30, 2019:

<b>Year ending June 30,</b>	<b>Total</b>
2020	\$ 170,300,000
2021	95,100,000
2022	60,500,000
2023	52,200,000
2024	40,400,000
2025-45	459,800,000
Total	<u>\$ 878,300,000</u>

As of June 30, 2019, PCE had outstanding non-cancelable commitments to professional service providers for services to be performed of approximately \$4.1 million from July 2019 through July 2020.

**PENINSULA CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**10. OPERATING LEASE**

During 2017, PCE entered into an 86-month non-cancelable lease for its office premises. The lease commencement date was August 1, 2017. The rental agreement includes an option to renew the lease for two additional five-year terms. Rental expense under this lease was \$368,000 and \$300,000 for the years ended June 30, 2019, and 2018, respectively,

In September 2019, the lease was extended an additional two years to September 30, 2026. In addition to the extension, PCE will lease additional office space through the same termination date with an estimated occupancy date of January 1, 2020.

Prior to this lease taking effect, PCE rented temporary office space under a lease with a term of less than one year. Rental expense under this lease was \$10,000 for the year ended June 30, 2018.

As of June 30, 2019, future minimum lease payments under this lease were projected as follows:

<b>Year ending June 30,</b>	
2020	\$ 379,000
2021	390,000
2022	402,000
2023	414,000
2024	427,000
2025	109,000
Total	<u>\$ 2,121,000</u>

**11. FUTURE GASB PRONOUNCEMENTS**

The requirements of the following GASB Statement are effective for years ending after June 30, 2020:

GASB Statement No. 87, Leases, is effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about the government's leasing activities.

**PENINSULA CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**12. PG&E BANKRUPTCY**

PG&E provides transmission and distribution services to PCE customers and serves as billing agent for PCE per the terms of a service agreement. PG&E is also responsible for collecting payments on behalf of PCE. In January 2019, PG&E filed for Chapter 11 bankruptcy protection.

PG&E has taken actions in its bankruptcy motions and subsequent court motions that specify that it will continue to serve as a billing agent on behalf of PCE and does not intend to cease or disrupt those services. PCE expects PG&E will continue to operate in a business-as-usual fashion and that PCE's revenues collected by PG&E will continue to flow through to PCE with no interruption.

**13. POWER CHARGE INDIFFERENCE ADJUSTMENT**

The CPUC and PCE, along with other CCAs, are in proceedings to determine the Power Charge Indifference Adjustment (PCIA), which is a rate PG&E charges CCA customers to account for the net costs for energy PG&E procured prior to those customers joining a CCA's service. While the outcome of this decision is unknown, an increase or decrease in the rate will change the total amount paid by PCE customers.



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Investment Portfolio Review

Peninsula Clean Energy Authority

*September 30, 2019*



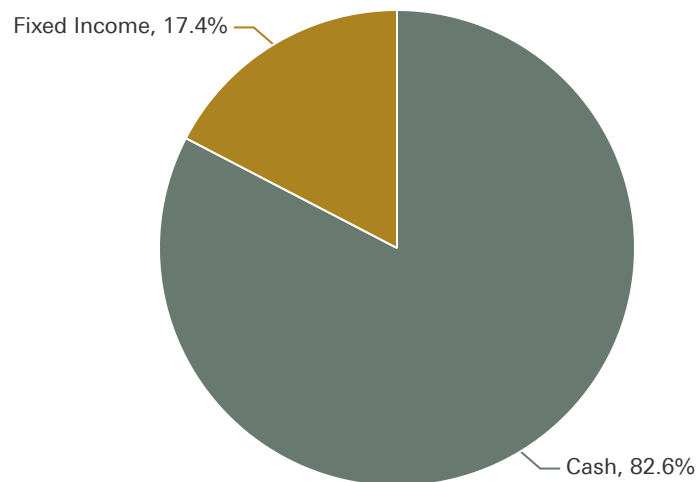
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## Asset Allocation



ASSET TYPE	\$	%
Cash	\$104,000,506	82.6%
Fixed Income	\$21,854,476	17.4%
<b>Total</b>	<b>\$125,854,982</b>	<b>100.0%</b>

## Portfolio Performance

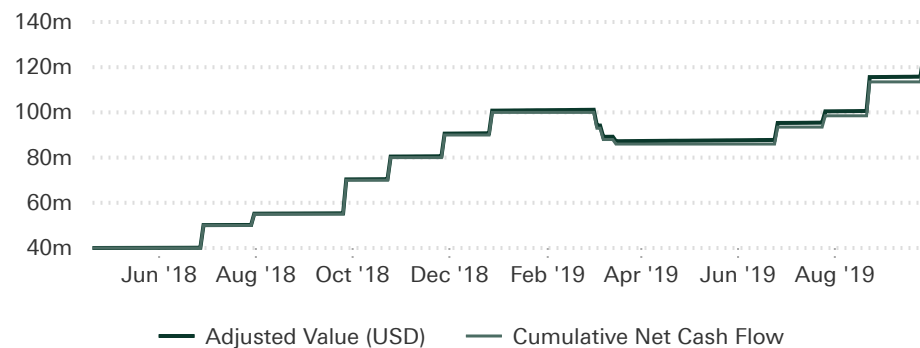
ASSET TYPE	QTD	YTD	ITD*
Cash	0.5%	1.7%	2.1%
Fixed Income	0.5%		1.6%
<b>Total</b>	<b>0.5%</b>	<b>1.6%</b>	<b>2.0%</b>

## Portfolio Activity

TRANSACTIONS	QTD	YTD	ITD*
Starting Value	\$95,336,921	\$100,786,842	\$40,000,000
Additions / Withdrawals	\$30,000,000	\$23,500,000	\$83,500,000
Gain / Loss	\$38,002	\$111,620	\$350,313
Income / Expenses	\$474,746	\$1,365,463	\$1,913,610
Change in Accrued Income	\$5,313	\$91,057	\$91,059
Current Value	\$125,854,982	\$125,854,982	\$125,854,982

\*Inception date is 04-20-2018

## Net Contributions vs. Market Value





ASSET TYPE	\$	%	QTD	YTD	1 YR.	3 YR.	5 YR.	ITD	
<b>Cash</b>	<b>\$104,000,...</b>	<b>82.6%</b>	<b>0.5%</b>	<b>1.7%</b>	<b>2.2%</b>			<b>2.1%</b>	<b>04-20-2018</b>
Money Market Funds (all)	\$12,472	0.0%	(45.3%)	(38.6%)	(44.1%)			(32.4%)	04-23-2018
<i>Barclays US Treasury Bills 1-3 Months (Total Return)</i>			0.5%	1.8%	2.3%			2.2%	
U.S. Treasury Bills	\$103,988,026	82.6%	0.5%	1.6%	2.1%			2.0%	04-23-2018
<i>FTSE USBIG Treasury Bill 3M</i>			0.6%	1.8%	2.4%			2.2%	
<b>Fixed Income</b>	<b>\$21,854,476</b>	<b>17.4%</b>	<b>0.5%</b>					<b>1.6%</b>	<b>02-08-2019</b>
Investment Grade Corporate Bonds	\$12,879,325	10.2%	0.5%					1.6%	02-08-2019
<i>Barclays US Aggregate (Total Return)</i>			2.3%					7.3%	
Developed International Bonds	\$8,975,151	7.1%	0.5%					1.6%	02-08-2019
<i>Barclays Global Aggregate ex-US (Total Return)</i>			(0.6%)					3.5%	
<b>Total</b>	<b>\$125,854,...</b>	<b>100.0%</b>	<b>0.5%</b>	<b>1.6%</b>	<b>2.2%</b>			<b>2.0%</b>	<b>04-20-2018</b>



## Portfolio Holdings

SECURITY	QUANTITY	COUPON RATE	MATURITY DATE	TIME TO MATURITY (YEARS)	CALL DATE	PRICE (USD)	MOODY'S RATING	S&P RATING	YTW	YTM	DURATION TO WORST	MARKET VALUE	% HELD (MV)	ANNUAL INCOME
United States Treas Bills B/E DTD 0.00% Due 10/03/2019	25,805.0	0.00%	10-03-2019	0.01	-	\$1,000	NR	NR	1.08%	1.08%	0.01	\$25,802,678	20.50%	\$0
Deere John Cap Corp Medium Term FXD RT NTS Ser F B/E DTD	3,000.0	1.25%	10-09-2019	0.03	-	\$1,000	A2	A	2.01%	2.01%	0.02	\$3,017,242	2.40%	\$18,750
United States Treas Bills B/E DTD 0.00% Due 11/07/2019	26,650.0	0.00%	11-07-2019	0.11	-	\$998	NR	NR	1.69%	1.69%	0.10	\$26,602,830	21.14%	\$0
Alibaba Group Holding LTD Note B/E DTD CLB 2.50 %	2,190.0	2.50%	11-28-2019	0.16	10-30-2019	\$1,000	A1	A+	2.29%	2.38%	0.16	\$2,208,926	1.76%	\$27,375
United States Treas Bills B/E DTD 0.00% Due 12/05/2019	27,000.0	0.00%	12-05-2019	0.18	-	\$997	NR	NR	1.77%	1.77%	0.18	\$26,913,060	21.39%	\$0
Toyota Motor Finance (netherlands) BV	3,000.0	2.38%	12-12-2019	0.20	-	\$1,000	Aa3	AA-	2.38%	2.38%	0.20	\$3,003,598	2.39%	\$18,086
United States Treas Bills B/E DTD 0.00% Due 12/26/2019	24,775.0	0.00%	12-26-2019	0.24	-	\$996	NR	NR	1.77%	1.77%	0.24	\$24,669,458	19.60%	\$0
National Australia BK LTD NY B/E DTD	2,850.0	2.25%	01-10-2020	0.28	-	\$1,001	Aa3	AA-	2.03%	2.03%	0.27	\$2,865,932	2.28%	\$32,062
BB&T CO Global BK Medium Term NT Program SR FLTG RT NT B/E DTD CLB	2,500.0	2.57%	01-15-2020	0.30	12-16-2019	\$1,001	A1	A	2.07%	2.17%	0.04	\$2,516,413	2.00%	\$32,580
Westpac BKG Corp SR NT B/E DTD 2.15 % Due Mar 6, 2020	3,100.0	2.15%	03-06-2020	0.43	-	\$1,000	Aa3	AA-	2.06%	2.06%	0.43	\$3,105,621	2.47%	\$33,325
Wells Fargo BK N A San Francisco Calif Medium Term SR BK NT BK NTS FLTG RT Note B/E DTD CLB	3,000.0	2.33%	03-25-2020	0.49	02-21-2020	\$1,001	Aa2	A+	2.10%	2.15%	0.00	\$3,003,671	2.39%	\$35,338
QUALCOMM INC FXD RT NT B/E DTD 2.25 % Due May 20, 2020	2,115.0	2.25%	05-20-2020	0.64	-	\$1,000	A2	A-	2.18%	2.18%	0.63	\$2,133,073	1.70%	\$47,588
<b>Total</b>		<b>0.38%</b>		<b>0.16</b>				<b>AA-</b>	<b>1.67%</b>	<b>1.68%</b>	<b>0.15</b>	<b>\$125,842,502</b>	<b>100.00%</b>	<b>\$245,104</b>



TRADE DATE	UNITS	TICKER SYMBOL	SECURITY	TYPE	PRICE PER SHARE	VALUE
07-12-2019	20,250.00	-	United States Treas Bills B/E DTD 0.00% Due 07/23/2019	Buy	\$999.53	(\$20,240,527.45)
07-23-2019	3,000.00	-	Wells Fargo BK N A San Francisco Calif Medium Term SR BK NT BK NTS FLTG RT N...	Buy	\$1,001.96	(\$3,012,912.50)
07-23-2019	(3,000.00)	-	Wells Fargo BK N A San Francisco Calif Medium Term SR BK NT BK NTS FLTG RT N...	(Cancellation) Buy	\$1,001.96	\$3,012,912.50
07-23-2019	3,000.00	-	Wells Fargo BK N A San Francisco Calif Medium Term SR BK NT BK NTS FLTG RT N...	Buy	\$1,001.96	(\$3,013,217.50)
07-25-2019	20,400.00	-	United States Treas Bills B/E DTD 0.00% Due 11/07/2019	Buy	\$994.12	(\$20,279,994.14)
08-05-2019	23,730.00	-	United States Treas Bills B/E DTD 0.00% Due 08/13/2019	Buy	\$999.62	(\$23,721,000.16)
08-15-2019	23,740.00	-	United States Treas Bills B/E DTD 0.00% Due 08/22/2019	Buy	\$999.70	(\$23,732,784.94)
08-20-2019	2,850.00	-	National Australia BK LTD NY B/E DTD	Buy	\$1,000.87	(\$2,859,960.75)
08-23-2019	27,500.00	-	United States Treas Bills B/E DTD 0.00% Due 08/29/2019	Buy	\$999.86	(\$27,496,278.42)
08-23-2019	3,750.00	-	United States Treas Bills B/E DTD 0.00% Due 10/03/2019	Buy	\$997.98	(\$3,742,419.79)
08-23-2019	3,750.00	-	United States Treas Bills B/E DTD 0.00% Due 09/05/2019	Buy	\$999.48	(\$3,748,056.26)
08-23-2019	3,750.00	-	United States Treas Bills B/E DTD 0.00% Due 11/07/2019	Buy	\$996.18	(\$3,735,688.95)
08-30-2019	24,500.00	-	United States Treas Bills B/E DTD 0.00% Due 12/05/2019	Buy	\$995.14	(\$24,381,011.58)
08-30-2019	3,100.00	-	Westpac BKG Corp SR NT B/E DTD 2.15 % Due Mar 6, 2020	Buy	\$1,000.94	(\$3,135,868.72)
09-06-2019	22,065.00	-	United States Treas Bills B/E DTD 0.00% Due 09/19/2019	Buy	\$999.46	(\$22,052,974.57)
09-06-2019	2,115.00	-	QUALCOMM INC FXD RT NT B/E DTD 2.25 % Due May 20, 2020	Buy	\$1,001.84	(\$2,133,432.23)
09-20-2019	22,125.00	-	United States Treas Bills B/E DTD 0.00% Due 09/26/2019	Buy	\$999.85	(\$22,121,784.57)
09-26-2019	2,500.00	-	United States Treas Bills B/E DTD 0.00% Due 11/07/2019	Buy	\$997.94	(\$2,494,845.10)
09-26-2019	2,500.00	-	United States Treas Bills B/E DTD 0.00% Due 10/03/2019	Buy	\$999.74	(\$2,499,338.75)
09-26-2019	24,775.00	-	United States Treas Bills B/E DTD 0.00% Due 12/26/2019	Buy	\$995.46	(\$24,662,583.44)
09-26-2019	27,000.00	-	United States Treas Bills B/E DTD 0.00% Due 12/26/2019	Buy	\$995.46	(\$26,877,487.50)
09-26-2019	2,500.00	-	United States Treas Bills B/E DTD 0.00% Due 12/05/2019	Buy	\$996.57	(\$2,491,413.32)
09-26-2019	(27,000...	-	United States Treas Bills B/E DTD 0.00% Due 12/26/2019	(Cancellation) Buy	\$995.46	\$26,877,487.50



## HIGHLIGHTS

- **U.S. equities closed Q3 positively, yet downside risks to the economy appear to be increasing**
- **Despite manufacturing weakness, resilient consumption is helping ease broader slowdown fears**
- **Traditional monetary policy is almost exhausted as global interest rates plunge towards zero or below**

## OVERVIEW

U.S. equities capped the third quarter of the year with modest gains, despite some periods of increased volatility. The percolating trade war, a Fed interest rate cut, Brexit negotiations, an impeachment inquiry, a surge in oil prices following a drone attack and evidence of slowing economic conditions across the world were some of the headwinds faced by investors. However, despite all the turmoil around trade and a weaker global economic outlook, the S&P 500 returned 1.7% during the quarter and marked an impressive 20.6% gain year to date. Meanwhile, the NASDAQ Composite rose 0.2% and 21.5% during the same periods.

While the current 11-year-old U.S. economic expansion remains the longest on record, it is also the slowest in terms of average growth. But macroeconomic risks — particularly those around global trade — have been on the rise, curbing economists' growth expectations. As has been the case throughout the year, developments in President Trump's trade war with China weighed on market sentiment and performance. The entrenched trade war between the world's two largest economies remains one of the market's major challenges, both due to the imposition of tit-for-tat tariffs on billions of dollars' worth of each other's goods, as well as the uncertainty surrounding businesses spending plans. As a result, business owners and CEOs have become increasingly more risk averse, deferring capital investment and expenditures until there is more certainty on the trade front.

On a positive note, the Fed, the European Central Bank (ECB) and other central banks have signaled moving to more accommodative monetary policies as they closely monitor the global economic environment. In an effort to stave off a possible recession, a divided Fed lowered its benchmark interest rate by another quarter percentage point to a range of 1.75% to 2% in September. The Fed cut interest rates twice in the third quarter, while the ECB pushed rates further into negative territory and said it would restart bond purchases. In turn, the Fed's dovish stance this year has bolstered the U.S. housing market. Although the nation's trade war is likely to remain a risk to economic growth, housing data signals that the market is likely to maintain its strength, supported by the low-interest-rate environment. Finally, while earnings have been lackluster thus far, the much-anticipated earnings recession has failed to materialize.

## U.S. ECONOMY: A MIXED BAG

U.S. manufacturing activity contracted in September for the second straight month, hitting a 10-year low and triggering investor concerns about the health of the broader economy. The trade war between the world's two largest economies has disrupted global supply chains, raising the cost of goods. That, in turn, is sapping demand for manufactured products. Further, the weak manufacturing figures raised doubts about whether the slowdown could have spilled over to the service sector, given the recent slide in consumer confidence.

Consumers have so far been the biggest engine of the U.S. economy, and a more cautious turn in their spending habits could act as a handbrake on growth. Consumer confidence levels fell the most in September for the year, as Americans' economic outlook became cloudier. Reports of the increased likelihood of an impeachment inquiry on President Trump added to this overall level of uncertainty. While a healthy job market and low unemployment helped consumer sentiment reach record highs in recent months, the latest survey reported that respondents grew slightly more pessimistic about both business and job market conditions.



Despite all the political and global uncertainty, the U.S. economy continued to grow during Q3 — albeit at a slower pace — and consumer spending remained the primary driver behind that growth. The latest labor data reports showed layoffs remained low, U.S. wage growth and job creation continued to trend up, and the unemployment rate hovered near a half-century low. These factors are helping to underpin household spending.

#### **EUROPE: MANAGING BREXIT AND A MANUFACTURING SLOWDOWN**

Stock markets around the world were mixed during the quarter, as European growth remained stubbornly weak and Hong Kong witnessed increasingly violent political protests. In turn, the MSCI EAFE Index lost 1.1% during the quarter, while the MSCI EM Index retreated by 4.2%. However, year-to-date figures are in the green, with the indexes gaining 12.8% and 5.9% respectively.

Focusing on Brexit, political analysts now see a much lower probability of a disorderly U.K. departure on or before the October 31 deadline, due to an intervention by the U.K. Parliament. While the probability of a disorderly exit still lingers, the expectation is that Prime Minister Johnson will ask for an extension to make way for a general election. In the meantime, it's difficult to predict how Brexit will evolve, with the lack of clarity acting as a drag on European equities.

Meanwhile, the ongoing trade war between the U.S. and China continued to shift the economic picture in Europe. Manufacturing PMIs (purchasing managers' index) in Germany sunk to their lowest levels since the aftermath of the global financial crisis, with the spillovers of external demand slowdown and an associated decline in business investment evident across Europe. The negative trends in global manufacturing and investment are in large part downstream effects of politics, rather than a traditional downturn driven by excess investment and debt. The trade war between the U.S. and China has led to a decline in global trade and business confidence. The impact of the dispute has fallen particularly hard on export-dependent countries — such as Germany — which are under greater pressure than economies where domestic consumption plays a greater role.

#### **CHINA: NOT IMMUNE FROM THE TRADE WAR**

Economic growth in China slowed during the third quarter, with the manufacturing sector feeling the most pain. With the country's growth rate at risk of dropping below 6%, President Xi is likely to face some degree of unrest and may seek a deal that could resume the flow of exports to the U.S., in turn boosting the Chinese economy. The divergence between services and manufacturing that we're seeing globally is also apparent in China. Employment indicators are pointing to a slowdown in hiring across the economy, which raises the incentive of the Chinese government to either negotiate some form of trade deal or introduce new measures of stimulus. It is worth noting that China's drive to clean up shadow banking and to cut debt in the past two years has been one of the major factors contributing to a slowdown in economic growth to its lowest level in almost three decades.

#### **MONETARY POLICY: CENTRAL BANKS GALVANIZED TO ACTION**

Around the world, policy makers have been cutting their key interest rates since April, with both the Fed and the ECB easing monetary policy again in September. The ECB tried to prevent contagion from the manufacturing sector to other parts of the economy by launching a package of new stimulus measures. Additionally, Euro-area inflation unexpectedly slowed last month, providing another argument to those in favor of the ECB's recent monetary stimulus package.

The Fed, in turn, cut its benchmark overnight lending rate for the second time this year to a target range of 1.75% to 2% in September. The central bank cited uncertainties around trade and muted inflation as headwinds to the U.S. economy. Many investors expect the central bank to cut rates at least one more time this year given the slump in manufacturing and business spending. Lowering rates in the future may also help weaken the U.S. dollar, which remained at elevated levels during the quarter.



On August 14, the yield curves on U.S. government-issued bonds inverted (with the yield on a ten-year Treasury falling below that of a two-year note) in what is widely regarded as an omen for a potential downturn. While this event has preceded a recession in 85% of cases since 1974, it is too soon to get overly concerned. On average it takes 13 months for a recession to appear once interest rates invert. On occasion, it has taken as long as two years. However, there is the added complication at present, though, of almost \$17 trillion dollars in government-issued and corporate debt, primarily in Europe, with negative yields. Increased demand for long-term bonds issued by states and large corporations, viewed as a safe harbor in a coming storm, is forcing up prices and driving yields down to subzero levels. In the U.S. interest rates turned sharply lower as trade tensions heightened and global growth forecasts fell. These concerns led to significant demand for high quality fixed income assets. Demand for U.S. Treasuries pushed rates down to levels not seen since 2016.

#### **CONCLUSION STAY THE COURSE**

As the United States and China prepare to resume talks later this month, hopes run high that there will be some sort of interim trade compromise between the two nations. Given the upcoming U.S. election and the need to achieve long lasting reform it's unlikely that a long-term, comprehensive resolution will be reached in the near term. Despite this less-than-rosy outlook, stock markets are trading at highs in the U.S., supported by monetary policy expectations and highly accommodative financial conditions.

Aside from the U.S.-China talks, the next three months have plenty of events on the schedule to keep markets on edge. The Fed will meet again in late October and the U.K. will face an end-of-the-month deadline that could see it exit the European Union without a withdrawal agreement. Closer to home, the impeachment inquiry into President Trump could create even more uncertainty. As we continue to endure the trade dispute saga, it is likely that uncertainty over the trading relationship will continue to affect economic growth and drive financial market volatility.

Looking forward, episodic turbulence driven by geopolitics and trade is to be expected during the remainder of the year. A well balanced portfolio may help investors withstand those sharp jumps in market volatility and asset prices. This makes investor discipline around diversification increasingly paramount. Given this backdrop, we strongly recommend rebalancing investors' portfolios back to their long-term asset allocation targets. At the same time, with the pivot that central banks have made toward more accommodation, the window to bear risk and find suitable investing opportunities is still open, especially around companies with robust balance sheets and a favorable outlook, and which are bought at attractive valuations.



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## Audit and Finance Committee Meeting Schedule 2020

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

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<b>Meeting Date:</b>	<b>Time:</b>	<b>Location:</b>
February 10, 2020 (Monday)	10:00 am	Lobby conference room
May 11, 2020 (Monday)	10:00 am	Lobby conference room
June 8, 2020 (Monday)	10:00 am	Lobby conference room
August 10, 2020 (Monday)	10:00 am	Lobby conference room
October 13, 2020 ( <b>Tuesday</b> )	10:00 am	Lobby conference room
November 9, 2020 (Monday)	10:00 am	Lobby conference room



**REGULAR MEETING of the Audit and Finance Committee  
of the Peninsula Clean Energy Authority (PCEA)  
Monday, June 10, 2019  
MINUTES**

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

**CALL TO ORDER**

Meeting was called to order at 10:05 a.m.

**ROLL CALL**

**Present:** Donna Colson, City of Burlingame, *Chair*  
Carole Groom, County of San Mateo  
Carlos Romero, City of East Palo Alto  
Laurence May, Town of Hillsborough  
Jeff Aalfs, Town of Portola Valley

**Staff:** Jan Pepper, Chief Executive Officer  
Andy Stern, Chief Financial Officer  
Jennifer Stalzer Kraske, Deputy County Counsel  
Anne Bartoletti, Board Clerk

**A quorum was established.**

**PUBLIC COMMENT**

No public comment.

**ACTION TO SET THE AGENDA AND APPROVE CONSENT AGENDA ITEMS**

Motion Made / Seconded: May / Aalfs

**Motion passed unanimously 4-0 (Absent: Romero)**

**REGULAR AGENDA**

**1. CHAIR REPORT**

No report.

**2. STAFF REPORT**

Andy Stern—CFO—reported that Peninsula Clean Energy (PCE) has initiated preparations for the annual audit with auditors Picenti & Brinker.

**3. RECOMMEND APPROVAL BY THE BOARD OF THE REVISED SPENDING BUDGET FOR FY2018-2019 TO AUTHORIZE TOTAL SPENDING ON OPERATING EXPENSES IN AN AMOUNT NOT TO EXCEED \$210,000,000**

Andy Stern—Chief Financial Officer—reported that budget forecasts project that PCE will exceed the authorized spending budget for Fiscal Year 2018-2019, primarily due to a higher cost of electricity during the third fiscal quarter. Andy reported that PCE will mitigate future market volatility through a variety of means, including increased hedging, additional PPAs (Power Purchase Agreement), and by maintaining or increasing PCE's reserves. Andy reported that the recommendation to the Board is to approve a revised budget of \$210.0 million.

Motion Made / Seconded: May / Romero

**Motion passed unanimously 5-0**

**4. RECOMMEND APPROVAL BY THE BOARD OF THE FY2019-2020 BUDGET**

Andy Stern reviewed key assumptions for the Fiscal Year (FY) 2019-2020 budget, including a rate change expected to take place on July 1, 2019, increases in PCIA in January 2020, increased costs for Renewable Energy Certificates (RECs) and Open Position Energy, increasing investment in and expansion of Local Programs, increases in Community Outreach Grants, and increases in staffing. Andy reviewed the proposed FY2019-2020 budget and projected energy costs, and the projected 5-year plan.

Motion Made / Seconded: Romero / Groom

**Motion passed unanimously 5-0**

**5. COMMITTEE MEMBERS' REPORTS**

None.

**ADJOURNMENT**

Meeting was adjourned at 11:44 a.m.