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

Monday, June 12, 2023
8:30 a.m.
Zoom Video Conference and Teleconference

CALL TO ORDER

Meeting was called to order at 8:35 a.m. in virtual teleconference and in the Peninsula Clean Energy Authority lobby.

ROLL CALL

Participating:

Donna Colson, Burlingame
Carlos Romero, East Palo Alto, arrived at 8:39 a.m.
Leslie Ragsdale, Hillsborough
Jeff Aalfs, Portola Valley
Marty Medina, San Bruno

Absent:

None

A quorum was established.

PUBLIC COMMENT

None

ACTION TO SET AGENDA AND TO APPROVE CONSENT AGENDA ITEMS

MOTION: Director Medina moved, seconded by Director Aalfs to set the Agenda.

MOTION PASSED: 4-0 (Absent: East Palo Alto)

JURISDICTION	BOARD MEMBER	YES	NO	ABSTAIN	ABSENT
Burlingame	Director Colson	X			
East Palo Alto	Director Romero				X
Hillsborough	Director Ragsdale	X			
Portola Valley	Director Aalfs	X			
San Bruno	Director Medina	X			
	Totals	4			1

REGULAR AGENDA

1. Chair Report

Chair Colson reported that she has been taking an interesting online training module from UC Davis and highly recommended it to other members.

2. Staff Report

Andy Stern, Interim Chief Financial Officer, provided an update to the Committee on the Fiscal Year (FY) 2021-2022 retroactive approval of spending. In the past, the Board has approved the budget in June and the following year they find out what the audited financials give them. The recommendation is because they skipped one year of retroactive approval of spending and it is so late this year and to be transparent, he asked if the Committee would like to circle back on this.

Chair Colson said she did not think there was any need to go back and she thinks it is more of an acknowledgement as opposed to approval.

3. Recommend Approval of Fiscal Year 2023-2024 Budget (Action)

Andy Stern, Interim Chief Financial Officer, gave a presentation covering the Fiscal Year (FY) 2023-2024 Budget and explained that the Committee recommends the Board approve the total operating expenses, and he presented an update of April financials, some minor modifications, and one change to the programs budget, explanation of contracts and costs, and built-in contingencies relating to contract signing. He said Staff will present the information to the Executive Committee on this Committee's behalf and then the Board will be asked to approve the final budget on June 22, 2023.

Chair Colson asked about the 99% of the 24x7 Hourly Renewable Project Delays $56 million over 5 years. Andy explained that due to contract signing, Peninsula Clean Energy would need to buy renewable energy at market prices. Assumed for the 5-year plan that half of the contracts will be approved, the built-in contingency for the 5-year plan in case projects do not get signed.

Director Medina asked about the likelihood of signed contracts, and Andy explained that the $56 million contingency would be modified as the dates grow closer.

Chair Colson asked if the $56 million would still be in the budget if doing 24x7. Jan Pepper, Chief Executive Officer, explained that not doing 24x7 would be more expensive, as Renewable Energy Credits (RECs) would need to be covered for renewables, and that this project is less expensive.

Chair Colson asked if they were just targeting 24x7 and buying for procurement for a holistic portfolio, if they would be budgeting 50%. Jan explained this is for them to be 100% renewable by 2025 because right now they are 50% renewable and 50% clean. Jan added that this is a contingency fund and not something necessarily planned to be spent. Chair Colson noted that this is important when thinking about retained earnings and how much cash is kept on hand.

Andy explained there is an expected reduction in 2025 from $393 million to $326 million because operating expenses are higher and there are fewer days for cash, and secondly, this is the year they start spending significant monies for the GovPV programs before they start to recover that in the following 2 years afterwards.

Public Comments: None

MOTION: Director Medina moved, seconded by Director Aalfs to recommend approval by the full Board of Directors of the Fiscal Year 2023-2024 (July 1, 2023, through June 30, 2024) budget at its meeting on June 22, 2023, with an amount of $350,657,317 as a not-to-exceed amount of Total Operating Expenses.

MOTION PASSED: 5-0

JURISDICTION	BOARD MEMBER	YES	NO	ABSTAIN	ABSENT
Burlingame	Director Colson	X			
East Palo Alto	Director Romero	X			
Hillsborough	Director Ragsdale	X			
Portola Valley	Director Aalfs	X			
San Bruno	Director Medina	X			
	Totals	5			

4. Discussion on Peninsula Clean Energy Investment Policy (Discussion)

Andy Stern, Interim Chief Financial Officer, gave a presentation including the current estimated investment management summary with various accounts and percentages of investments, such as Fidelity, US Bank, First Republic, PFM, and Schwab. He described and explained the Investment Policy 19 adopted on May 28, 2020 with three priorities: safety, liquidity, and return. He spoke about examples of adding certain guardrails, compliance by each manager and a violation of money market fund guidelines.

Director Romero asked if the violation was in Peninsula Clean Energy's internal controls. Jan Pepper, Chief Executive Officer, explained that it is that they do not allow more than "x" percent in any one type of investment. By having these large amounts in Schwab or Fidelity it exceeds that "x" percent amount that their policy says they can have for any one type of investment.

Chair Colson explained the money market/mutual fund guardrails noting that the limit was 10% mutual fund to avoid a doubling up on fees, rather than for diversification.

Andy shared that alternatives would be to remove or relax those money market mutual fund guardrails, establish fixed income management portfolios with Schwab and Fidelity, identify specific balances to maintain, or expand their investment policy to explain how to manage the portfolio by investment managers.

Chair Colson said the goal is to avoid paying mutual fund fees and active management fees which is why the limit of 10% exists.

Andy explained the fees in the mutual fund are .2% and the accounts are earning 5% due to high interest rates. Chair Colson said she believes they pay 8 to 10 basis points for PFM and First Republic Bank.

Director Aalfs clarified that there are two questions – diversification of the whole fund and not double dipping on fees. Chair Colson confirmed and asked if the value they get from management of the funds versus what the cost is in basis points and that more information would be helpful for the Committee. The investment policy has two levels: Actively-managed security selection level and the manager structure level.

Director Aalfs added that they hire investment managers to get value over and above what the fees are. They are diversifying between institutions and the institutions are diversifying within themselves.

Committee members agreed to obtain more information about terms, fees, historical data, and whether it is worth making changes, and to identify balances with certain institutions on actively managed security selection level and the manager structure level.

5. Power Purchase Agreement Pre-Pay Presentation (Discussion)

Andy Stern, Interim Chief Financial Officer, introduced Garth Salisbury, Chief Financial Officer of Marin Clean Energy (MCE), who was invited to come and provide education and information to the Committee on Power Purchase Agreement (PPA) Pre-Pay which he presented at the CalCCA conference.

Andy asked who the Community Choice Aggregator (CCA) is actually paying since they are not paying for the bond. Garth explained all cash flows go to a trustee and in fact, the PPA payments go to pay the debt service, the prepaid suppliers paying for the energy, but the ultimate obligator is the prepaid supplier or the bank.

Andy added that there are 85 agreements within one of the deals, but there are agreements where you will pay the bank. The bank then makes the debt payments and take a margin for doing this.

Chair Colson asked who is banking the bonds. Garth explained it is Goldman Sachs which was the first to approach them.

Chair Colson asked who is buying the municipal bonds and asked what the interest rates are. Garth explained the savings are net of all of the fees, and he spoke about the MCE Board approving this as long as the upfront and issuance costs were under 1% of the amount of the bond proceeds. Chair Colson asked about the interest rates. Garth said interest rates are higher today than they were last year, but the purchase of these bonds are overwhelmingly intermediate bond funds by Fidelity and Putnam that come in for $200 million in bonds at a time. As a tax-exempt bond, they are backed by corporate entities and not a retail municipal product.

Chair Colson said when initially issuing with lower interest rates, she asked if the 8%-12% discount is still holding given the increased interest rate. Garth explained, yes. It is all about the spread between taxable and tax exempt. A 2% environment is a lot less than 30% of a 6% environment. So, in a higher interest rate environment, these prepays actually product more savings than they would in a low interest rate environment.

Chair Colson asked if the cost of setting up the deal will also be absorbed. Garth explained that this is paid out of bond proceeds. Staff time would be lost for putting the deal together, but all the costs work on a contingency basis and are paid at closing of the bond proceeds.

Chair Colson asked when moving from CCA to California Community Choice Financing Authority (CCCFA), if each individual contract is specific to a particular CCA or are they amalgamated or cross-collateralized, and asked how that works. Garth explained that the second deal done was for EBCE and SVCE that did a deal together. Those cash flows are distinct and specific so there is no cross-collateralization or otherwise between PPAs for a certain CCA or if there are multiple CCAs in a transaction, all cash flows are distinct and specific to that CCA. There are some economies of scale of doing a deal jointly with another CCA but it is not necessary.

Shawn Marshall, Chief Operating Officer, asked what other CCAs have done to guard against a higher PPA contract price to mitigate the middleman and perceived risk. Garth explained that these existing PPAs are already set up and there is assignment language if it is likely to be pre-paid.

Jan Pepper, Chief Executive Officer, asked if the agreements would affect the operation of the project, noting the importance of scheduling projects in a certain way to meet their particular goals and it looks like there might be ability for someone else who now has their fingers in their projects to affect that. Garth explained that nothing changes with the interactions with the PPA seller. What changes is the invoicing, but the interactions with the seller operationally remain exactly the same.

Jan asked where the Renewable Energy Credits (RECs) go. Garth explained they went to the California Public Utilities Commission (CPUC) and they have had no issues with prepayments.

Director Aalfs asked what it would take to create a deal where you actually bond the project itself as opposed to just prepaying it. Garth explained that then it would be a prepay and you cannot own the project outright and prepay it too.

Director Aalfs asked if CCCFA could issue bonds to buy a project and not a prepayment deal. Garth explained that they could, but that California Community Power (CC Power) would probably be a better place to do that.

Jan clarified that CCPower has not owned projects nor issued any debt, but if they wanted to own a project, she asked if they could use CCCFA as a vehicle to issue the bond directly.

Chair Colson noted that by owning them it would make PCE responsible for the bonds.
Garth confirmed it would sit on the bank's balance sheet and this is a longer conversation.

Director Romero referred to the 1% transaction cost and he asked at what scale was the issuance or deal. Garth explained the deal sizes have ranged from $500 million to $1.4 billion.

Director Romero asked if they are not counting that cost in the transaction cost. Garth explained no, the 1% cost is included with all deal team members getting paid.

Director Romero asked if it includes all of the profits they issue or events. Garth confirmed.

Chair Colson asked where the risks are associated with this. Garth explained that the risks are minimal, primarily reputational, and the best example he has is from a Municipal Gas Authority of Georgia.

Director Ragsdale said if they are prepaying the supplier, she asked what happens if the supplier disappears.

Director Aalfs explained you are paying supplier who has the project, and the owner of the project would sell that project to someone. The generation source stays there unless in the case of bankruptcy.

Director Aalfs said in terms of risk, over the course of all of those agreements they pay a bank to take on that risk for the bonds themselves, so they forego some savings. The question is how much of a savings would be divided between them and the other parties. Even paying people to take on the risk for them it is still an 8% or 9% savings which is a lot of money for them.

Andy added that it is roughly $25 million a year for 30 years.

Director Romero said therefore, 10% savings is pretty significant.

Director Aalfs said he thinks it is interesting and he would be interested in what it would take to buy some of these projects at present value.

Director Romero said to clarify, Peninsula Clean Energy would not be pre-paying the supplier, and Jan said no, they are not.

Director Aalfs noted the saving is also a tax advantage to municipal bonds.

Jan explained that they did not look into this more earlier because you need to have a big spread between your taxable and tax exempt interest rates. There was not any until the last year. It is a lots of work, many documents, many investment bankers, and after 7 years it must be redone because it is not a 30 year term.

Jan said when she was involved at SVP they did one for gas. It was very good since gas is so volatile where you lock in a price and it was a really good deal for them. But, with Peninsula Clean Energy, it is on our list but not the top of list.

6. Committee Members' Reports

None

ADJOURNMENT

Meeting was adjourned at 10:15 a.m.