

Executive Committee Meeting
Friday, October 7, 2022
12:15 P.M.

This Meeting will be conducted via teleconference pursuant to the requirements of [Assembly Bill No. 361](#). By using teleconference for this meeting, MCE continues to promote social distancing measures recommended by local officials.

Members of the public who wish to observe the Meeting and/or offer public comment may do so telephonically via the following teleconference call-in number and meeting ID:

For Viewing Access Join Zoom Meeting:

<https://us02web.zoom.us/j/83302248691?pwd=a2huTXpyVkRWczBHbWpRRWsvQis5Zz09>

Dial: 1-669-900-9128
Webinar ID: 833 0224 8691
Meeting Passcode: 002327

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1. Roll Call/Quorum
2. Board Announcements (Discussion)
3. Public Open Time (Discussion)
4. Report from Chief Executive Officer (Discussion)
5. Consent Calendar (Discussion/Action)
 - C.1 Approval of 7.1.22 Meeting Minutes
6. Proposed CEO Review & Compensation Structure (Discussion/Action)
7. Implementation of Electrification Rate Schedule E-ELEC (Discussion/Action)

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8. Proposed Amendments to MCE Policy 014: Investment Policy (Discussion/Action)
9. Review Draft 10.20.22 Board Agenda (Discussion)
10. Committee Matters & Staff Matters (Discussion)
11. Adjourn

The Executive Committee may discuss and/or take action on any or all of the items listed on the agenda irrespective of how the items are described.

DISABLED ACCOMMODATION: If you are a person with a disability which requires an accommodation, or an alternative format, please contact the Clerk of the Board at (925) 378-6732 as soon as possible to ensure arrangements for accommodation.

MCE EXECUTIVE COMMITTEE MEETING MINUTES

Friday, July 1, 2022

12:00 P.M.

The Executive Committee Meeting was conducted pursuant to the requirements of [Assembly Bill No. 361](#) (September 16, 2021) which allows a public agency to use teleconferencing during a Governor-proclaimed state of emergency without meeting usual [Ralph M. Brown Act](#) teleconference requirements. Committee Members, staff and members of the public were able to participate in the Committee Meeting via teleconference.

Present: Bruce Ackerman, Alternate, Town of Fairfax
 Denise Athas, City of Novato
 Edi Birsan, City of Concord
 Tom Butt, City of Richmond
 Barbara Coler, Town of Fairfax
 Cindy Darling, City of Walnut Creek
 Ford Greene, Town of San Anselmo
 Kevin Haroff, City of Larkspur, Chair
 Devin Murphy, City of Pinole
 Gabriel Quinto, City of El Cerrito
 Shanelle Scales-Preston, City of Pinole
 Brad Wagenknecht, County of Napa and all Five Napa Cities

Absent: Holli Thier, Town of Tiburon
 Sally Wilkinson, City of Belvedere and the City of Mill Valley

Staff & Others: Sarah Dillemath, Marketing and Communications Associate
 Mariela Herrick, Community Development Manager
 Darlene Jackson, Board Clerk
 Vicken Kasarjian, Chief Operating Officer
 Catalina Murphy, Associate General Counsel
 Enyo Senyo-Mensah, Office Manager
 Dawn Weisz, CEO

1. **Roll Call**
 Chair Haroff called the regular Executive Committee meeting to order at 12:02 p.m. with quorum established by roll call.
2. **Board Announcements (Discussion)**
 There were none.
3. **Public Open Time (Discussion)**
 Chair Haroff opened the public comment period and there were no comments.
4. **Resolution No. 2022-08 Authorizing Continued Remote Teleconference Meetings for the Board of Directors and Every Committee of the Board of Directors Pursuant to Government Code Section 54953(e) (Discussion/Action)**

Catalina Murphy, Associate General Counsel, presented this item and addressed questions from Committee members.

Action: It was M/S/C (Darling/Wagenknecht) to approve **Resolution No. 2022-08 Authorizing Remote Teleconference Meetings for the Board of Directors and Every Committee of the Board of Directors Pursuant to Government Code Section 54953**. Motion carried by unanimous roll call vote. (Absent: Directors Their and Wilkinson).

5. Report from Chief Executive Officer (Discussion)

CEO Dawn Weisz, reported the following:

- MCE received a \$3 Million grant to launch, along with other partners, a Virtual Power Plant in the City of Richmond.
- Marin Community Foundation (MCF) approved funding to expand EV program in Marin County.
- Battery Storage Project went live at Point Reyes Medical Clinic.
- MCE Certify and Amplify event a huge success. Kudos to all who worked on the project.

6. Consent Calendar (Discussion/Action)

C.1 Approval of 3.4.22 Meeting Minutes

C.2 Approval of California Community Choice Association (CalCCA) Dues

Chair Haroff opened the public comment period and there were no comments.

Action: It was M/S/C (Wagenknecht/Greene) to approve **Consent Calendar item C.1 – C.2**. Motion carried by unanimous roll call vote. (Absent: Directors Their and Wilkinson).

7. Because of Youth Campaign Update (Discussion)

Mariela Herrick, Community Development Manager and Sarah Dillemath, Marketing and Communications Associate, presented this item and addressed questions from Committee members.

Chair Haroff opened the public comment period and there were no comments.

Action: No action required.

8. Review Draft 7.21.22 Board Agenda (Discussion)

CEO Weisz, presented this item and addressed questions from Committee members.

Chair Haroff opened the public comment period and there were no comments.

Action: No action required.

9. **Committee & Staff Matters (Discussion)**

There were comments made by Directors Ackerman, Birsan and Quinto.

10. **Adjournment**

Chair Haroff adjourned the meeting at 12:44 p.m. to the next scheduled Executive Committee Meeting on August 5, 2022.

Kevin Haroff, Chair

Attest:

Dawn Weisz, Secretary



October 07, 2022

TO: MCE Executive Committee

FROM: Justin Kudo, Senior Strategic Analysis and Rates Manager

RE: Implementation of Electrification Rate Schedule E-ELEC
(Agenda Item #07)

Dear Executive Committee Members:

Summary:

During PG&E's 2018 Rate Design Window proceeding, CPUC Decision 20-03-003 directed PG&E to propose a residential pro-electrification rate schedule. To meet this requirement, PG&E developed rate schedule E-ELEC, proposed to go into effect on December 1, 2022. E-ELEC would support electrification by replacing a portion of PG&E's volumetric delivery charges with a flat monthly fee, mitigating the volumetric costs associated with increased electricity usage in lieu of fossil fuel-based resources.

E-ELEC eligibility is limited to customers participating in one of the following activities:

- 1) Electric vehicle charging;
- 2) Energy storage; or
- 3) Electric heat pumping for water heating or heating and cooling.

Due to the complexities of PG&E's billing system, Solar Net Energy Metering (NEM) customers will be ineligible to sign up for E-ELEC with PG&E until later in 2023.

Customer Impacts

The E-ELEC rate schedule aims to help reduce the electricity costs of customers when their energy usage increases due to electrification. E-ELEC may reduce bills by:

- Reduced volumetric PG&E distribution charges (replaced by a flat daily rate)
- No volumetric PG&E Tiered Rates (also known as the Baseline Credit or Conservation Incentive Adjustment), where customers pay higher rates as their monthly usage increases.
- Adjusted seasonal MCE generation rates with higher summer rates, and lower

rates the rest of the year.

Currently available residential rate offerings are as follows:

Rate Schedule	Seasonal Pricing	Time-Variant Pricing	Tiered	Distribution Charges
E-1	Limited	No	Yes	Volumetric
E-TOU-C	Yes	Yes	Yes	Volumetric
E-TOU-D	Yes	Yes	No	Volumetric
EV2	Yes	Expanded for Off Peak Charging	No	Volumetric
E-ELEC	Expanded	Yes	No	Mixed Volumetric and Fixed

E-ELEC is most likely to offer savings to MCE customers with high usage, particularly outside of the summer season. Features are otherwise similar to the E-TOU-D and EV2 rate schedules above, and in many cases, customers may still see lower electric charges by remaining on these rates. E-ELEC is optional, and MCE customers would still be eligible for any other available residential rate.

Implementation

To provide service under the E-ELEC rate schedule, MCE must develop comparable generation rates at which to bill customers subscribed to PG&E's E-ELEC rate schedule. Staff proposes initial MCE E-ELEC generation rates as follows:

E-ELEC	Peak (4p-9p)	Partial Peak (3p-4p and 9p-12a)	Off Peak (all other hours)
Summer (Jun-Sep)	\$0.235/kWh	\$0.148/kWh	\$0.108/kWh
Winter (Oct-May)	\$0.089/kWh	\$0.071/kWh	\$0.060/kWh

These rates are based on preliminary PG&E generation rates as indicated in its Pro Forma Electric Rate Schedule in Advice Letter E-6690. Final rates may differ, but are not expected to be significantly different. In future years, including the upcoming rate setting cycle, staff would recommend adjusting these rates as necessary to meet revenue requirements and match the appropriate cost of service.

Fiscal Impacts: No direct costs associated with rate implementation. Potential nominal revenue impacts from alternative rates depending on usage behavior.

Recommendation: Approve the implementation of MCE rates for the E-ELEC rate schedule effective December 1, 2022.



October 7, 2022

TO: MCE Executive Committee

FROM: Garth Salisbury, Chief Financial Officer & Treasurer

RE: Proposed Amendments to MCE Policy 014: Investment Policy (Agenda Item #08)

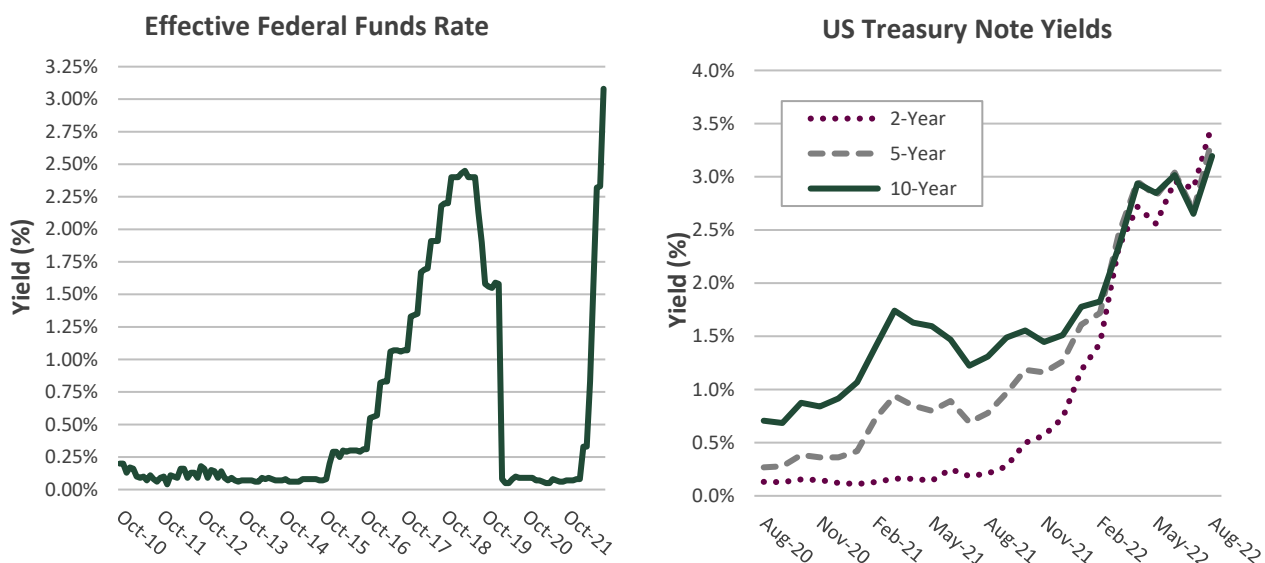
ATTACHMENT: Proposed Amended MCE Policy 014: Investment Policy with Glossary of Investment Terms in Strikeout/Underline Format

Dear Executive Committee Members:

Summary:

In April 2018, your Board approved MCE Policy 014: Investment Policy (the “Policy”) to guide the investment of MCE’s cash and investments. In March of 2019 your Board amended the Policy to include additional investments in compliance with those allowable in the California Government Code (the “Code”) and to add other protections and reporting requirements of the MCE Treasurer. In March, 2020 your Board further amended the Policy to reflect a change in the Code allowing additional investment in FDIC insured bank deposits. Staff is recommending further amendments to the Policy as described below.

Background: Since inception through the close of the most recent fiscal year, MCE has accumulated over \$200 million in reserves. Historically, MCE has invested its reserves in FDIC insured or collateralized money market funds and bank certificates of deposit. During the last two years, interest rates available from these investment vehicles have varied significantly in response to actions by the Federal Reserve Bank (the “Fed”). During the pandemic, the Fed reduced the Federal Funds Target Rate (interest rate) to a range between zero and 0.25% to encourage economic investment and to stimulate the economy. Since March of this year, the Fed has increased the target rate to over 3% in an effort to cool the economy and get inflation under control. These inflation fighting measures have created increased capital markets volatility, tighter financial conditions, and significantly higher interest rates in a short period of time. (See a tracking of the Federal Funds Rate and US Treasury Note Yields)



In response to these changing financial conditions and in compliance with the Code and the Investment Policy, MCE issued a solicitation for a professional investment manager with the goal of allocating up to 50% of MCE's liquid assets to be managed professionally.

Rationale for Further Amendments: Further review and recommended changes to the Investment Policy are appropriate following MCE's retention of an investment advisor. Chandler Asset Management ("CAM") was selected as MCE's investment advisor after the RFP process and they bring the necessary experience, local presence and customer service to assist MCE in this next important phase of our investment strategy. A number of amendments to the Policy are being proposed to capture the latest relevant changes to the Code, add additional permitted investment categories that remain in compliance with the Code, and to add a number of protections, procedures and "best practices" in order to ensure ongoing compliance with the tenets of "safety, liquidity and return on investment".

MCE's current Investment Policy limits the investment of funds to: commercial bank checking and savings accounts, negotiable and non-negotiable certificates of deposit, the California State Treasury's Local Agency Investment Fund (LAIF), U.S. Treasury obligations, Federal Agency Securities, Bankers' Acceptances, Placement Service Deposits, Money Market Funds and Commercial Paper.

The proposed amendments to MCE's Investment Policy expand eligible investments to include: municipal securities issued by the State of California and its political subdivisions, collateralized repurchase agreements, high credit quality medium-term corporate notes, asset-backed securities, and supranational debt. The proposed amendments also remove Bankers' Acceptances as a permitted investment as these securities are now extremely rare and no longer a liquid investment alternative. Please see the new Investment Policy section titled "Glossary of Investment Terms" for a description of these investment categories.

The primary purpose of expanding eligible investments is to enhance diversification of MCE's investment program, but the additional asset classes are also expected to provide higher return options over the long-run with little incremental risk while remaining, at all times, in compliance with the Code.

Additionally, Staff and CAM also recommend for the Board's consideration:

- Including a Scope section detailing MCE's funds subject to the Policy
- Augmenting the Policy's Delegation of Authority section to include the engagement of a professional money manager
- Adding a new section to manage ethics and conflicts of interest
- Including additional concentration and credit limits on the different asset classes allowed in order to enhance safety and liquidity
- Augmenting the requirements for brokers and other financial institutions doing business with MCE
- Adding new sections addressing the management of credit and market risk in MCE's investment program
- Including a Glossary of Investment Terms to enhance Policy readability

Fiscal Impacts: It is anticipated that the amendments to the Investment Policy and the professional management of a certain amount of MCEs reserves will result in incremental interest earnings on those funds over time.

Recommendation: Recommend approval of the proposed amendments to MCE Policy 014: Investment Policy, to the MCE Board of Directors.



POLICY 014: Investment Policy

Introduction

This Investment Policy establishes guidelines for the management of cash, deposits and investments (together, “funds”) at MCE (or the “Agency”).

Scope

This policy covers all funds and investment activities under the direct authority of MCE, as set forth in the State Government Code, Sections 53600 et seq., with the following exceptions:

- Proceeds of debt issuance shall be invested in accordance with MCE’s general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.
- Any other funds specifically exempted by MCE’s Board of Directors.

Objectives

When managing funds, MCE’s primary objectives, in order of importance, shall be to safeguard the principal of the funds, meet the liquidity needs of MCE, and achieve a return on investment on funds in MCE’s control.

Safety: Safety of principal is the foremost objective of cash and investment management activities. The investment of funds shall be undertaken in a manner that seeks to ensure the preservation of principal.

Liquidity: The funds of the Agency shall remain sufficiently liquid to meet all operating needs that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment of funds in deposits or instruments available on demand is recommended.

Return on Investment: The deposit and investment portfolio shall be designed with the objective of attaining a market rate of return throughout the economic cycle while considering risk and liquidity constraints. The return on deposits and investments is of secondary importance compared to the safety and liquidity objectives described above.

Standard of Care

MCE will manage funds in accordance with the Prudent Investor Standard pursuant to California Government Code Section 53600.3.1¹: “Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard. When investing,

¹ All further statutory references are to the California Government Code unless otherwise stated.

reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

Delegation of Authority

Pursuant to Section 53607, the responsibility to manage funds is delegated to the Treasurer of MCE. The Treasurer may appoint Deputy Treasurers as the Treasurer deems necessary and convenient for the prompt and faithful discharge of its duties to invest and reinvest the funds of MCE, pursuant to Section 53607.

MCE may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of MCE’s investment portfolio in a manner consistent with the MCE’s objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

Ethics and Conflicts of Interest

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. Thus employees and officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose to MCE’s General Counsel or designee any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of MCE.

Authorized Investments

MCE’s investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the Code, MCE seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit quality requirements listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At the time of the investment’s maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

The following types of investments are permitted:

Deposits at Bank(s): Funds may be invested in non-interest bearing depository accounts to meet MCE's operating and collateral needs and grant requirements. Funds not needed for these purposes may be invested in interest bearing depository accounts or Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit with maturities not to exceed five years.

Banks eligible to receive deposits will be federally or state chartered and will conform to Section 53635.2 which requires that banks "have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code."

FDIC insurance coverage in the United States is \$250,000 per Tax ID Number. As per Section 53652, banks must collateralize the deposits of public agencies. The Treasurer, or a duly appointed Deputy Treasurer, will monitor the credit quality of eligible banks to ensure the safety of MCE deposits.

Local Agency Investment Fund (LAIF): Funds may be invested in the Local Agency Investment Fund. The LAIF was established by the California State Treasurer for the benefit of local agencies. Statutory requirements of the Local Agency Investment Fund include:

Section 16429.1

- a. There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.
- e. The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.
- j. Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.
- i. Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of 5 percent of the earnings of this fund and not to exceed the amount appropriated in the annual Budget Act for this function, shall be deducted from the earnings prior to distribution.

Section 16429.4

The right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

US Treasury Obligations: Funds may be invested in United States Treasury obligations and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest with a term to maturity not exceeding 5 years. There are no limits on the dollar amount or percentage that MCE may invest in U.S. Treasuries, subject to the limitations set forth in Sections 53601 et seq. and 53635 et seq.

Federal Agency Securities: Funds may be invested in Federal Agency Securities 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. There are no limits on the dollar amount or percentage that MCE may invest in Federal Agency or Government-Sponsored Enterprises (GSEs) with a term to maturity not exceeding 5 years. No more than 30% of the portfolio may be invested in any single Agency/GSE issuer. Federal Agency and GSE obligations must be rated in a rating category of AA or equivalent or better. The maximum percent of agency callable securities in the portfolio will be 20%.

Commercial Paper: Funds may be invested in commercial paper in accordance with the requirements of Section 53601 and subject to the following limitations:

- i. No more than 25% of the total portfolio shall be invested in commercial paper;
- ii. The term to maturity shall not exceed 270 days; and
- iii. No more than 10% of outstanding commercial paper shall be from any single issuer.

The issuer of commercial paper must have the following:

- i. Assets in excess of \$500 million;
- ii. A credit rating of A-1 or better by a Nationally Recognized Statistical Rating Organization (NRSRO); and
- iii. A senior debt rated at A or better.

Additionally, under a provision sunseting on January 1, 2026, no more than 40% of the portfolio may be invested in Commercial Paper if the Agency's investment assets under management are greater than \$100,000,000. No more than 5% of the portfolio may be invested in any single issuer.

Negotiable Certificates of Deposit: Funds may be invested in negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, and subject to the following limitations:

- i. Issued by an entity as defined in Section 53601(i); and
- ii. No more than 30% of funds invested pursuant to this Investment Policy may be invested in certificates of deposit.
- iii. The amount of the NCD insured up to the FDIC limit does not require any credit ratings.
- iv. Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least

v. one NRSRO.

vi. No more than 5% of the portfolio may be invested in any single issuer.

ii.vii. The maximum maturity does not exceed five (5) years.

Collateralized Time Deposits (Non-Negotiable Certificates of Deposit): Funds may be invested in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

- No more than 50% of the portfolio will be invested in a combination of federally insured and collateralized time deposits, including CDARS.
- The maximum maturity does not exceed five (5) years.

Placement Service Deposits: Funds may be invested in deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States (Section 53601.8). The full amount of principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. The combined maximum portfolio exposure to the deposits placed pursuant to this section, Insured Cash Sweep (ICS) and Certificate of Deposit Account Registry Service (CDARS) is limited to 50 percent and the maximum investment maturity will be restricted to five years, unless otherwise prescribed by law.

Money Market Funds: Funds may be invested in money market funds pursuant to Section 53601(l)(2) and subject to Section 53601(l)(4).

Municipal Securities: Funds may be invested in municipal securities including obligations of MCE, the State of California and any local agency within the State of California, provided that:

- The securities are rated in a minimum rating category of "A+" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
- No more than 5% of the portfolio may be invested in any single issuer.
- No more than 30% of the portfolio may be in Municipal Securities.
- The maximum maturity does not exceed five (5) years.

Repurchase Agreements: Funds may be invested in repurchase agreements collateralized with securities authorized under California Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that MCE may invest, provided that:

- Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third party custodian.
- Repurchase Agreements are subject to a Master Repurchase Agreement between the Agency and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).
- The maximum maturity does not exceed one (1) year.

Corporate Medium-Term Notes (MTNs): Funds may be invested in MTMs provided that:

- The issuer is a corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

- The securities are rated in a rating category of “A+” or its equivalent or better by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in MTNs.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

Asset-Backed, Mortgage-Backed, Mortgage Passthrough Securities, and Collateralized Mortgage Obligations from issuers of U.S. Treasuries, Federal Agencies, and Government Sponsored Enterprises: Funds may be invested in these securities, provided that:

- The securities are rated in a rating category of “AA” or its equivalent or better by a NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
- The maximum legal final maturity does not exceed five (5) years.

Supranationals: Funds may be invested in supranationals provided that:

- Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
- The securities are rated in a rating category of “AA” or its equivalent or better by a NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

Prohibited Investments

Pursuant to Section 53601.6, MCE shall not invest funds in any security that could result in a zero interest accrual, or less, if held to maturity. These prohibited investments include inverse floaters, range notes, or mortgage-derived interest-only strips, -futures and options. The purchase of foreign currency denominated securities is prohibited. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited. Purchasing or selling securities on margin is prohibited. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.

Investment Portfolio Management

The term to maturity of any funds invested shall not exceed 5 years pursuant to Section 53601. The Treasurer, or a duly appointed Deputy Treasurer, will allocate funds among authorized investments consistent with the objectives and standards of care outlined in this Policy.

Bids and Purchase of Securities

Prior to the purchase of an investment pursuant to this Policy the persons authorized to make investments shall assess the market and market prices using information obtained from available sources including investment services, broker/dealers, and the media. A competitive bid process, when practical, will be used to place all investment purchases and sales transactions.

Brokers

To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible.

In accordance with Section 53601.5, institutions eligible to transact investment business with MCE include:

- Institutions licensed by the state as a broker-dealer.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of MCE, except where MCE utilizes an external investment adviser in which case MCE may rely on the adviser for selection.

Selection of broker/dealers used by an external investment adviser retained by MCE will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

The Treasurer shall be prohibited from selecting any broker, brokerage firm, dealer, or securities firm that has, within any 48-consecutive month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board to any member of the MCE Board, or any candidate for those offices. The broker/dealers shall be provided with and acknowledge receipt of the Investment Policy.

Losses

Losses are acceptable on a sale before maturity and may be taken if required to meet the liquidity needs of the Agency or if the reinvestment proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment, considering any investment loss or foregoing interest on the original investment.

Delivery and Safekeeping

The delivery and safekeeping of all securities shall be made through a third party custodian when practical and cost effective as determined by the Treasurer, or a duly appointed Deputy Treasurer, and in accordance with Section 53608. The Director of Finance or their designee shall review all transaction confirmations for conformity with the original transaction.

Risk Management and Diversification—Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. MCE will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the “Authorized Investments” section of this policy are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- MCE may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or MCE’s risk preferences.
- If a security owned by MCE is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
 - Any actions taken related to the downgrade by the investment manager will be communicated to the Treasurer in a timely manner.
 - If a decision is made to retain the security, the credit situation will be monitored and reported to the Governing Body.

Risk Management and Diversification—Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. MCE recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. MCE will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

MCE further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. MCE, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- MCE will maintain a minimum of \$40 million in cash and overnight investments at all times ~~net~~ to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by MCE based on MCE’s investment objectives, constraints and risk tolerances.

Conflict of Interest

In accordance with state law, staff shall not accept honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other person with whom MCE conducts business.

Audits

MCE's funds shall be subject to a process of independent review by its external auditors. MCE's external auditors shall review the investment portfolio in connection with the annual audit for compliance with the Investment Policy pursuant to Section 27134. The results of the audit shall be reported to the Director of Finance and the Ad Hoc Audit Committee.

Reports

Monthly: So long as the Board of Directors' annual delegation of investment authority pursuant to Section 53607 to the Treasurer is effective, the Treasurer or a duly appointed Deputy Treasurer will perform a monthly review of the investment function and shall submit a monthly report of all investment transactions to the Board of Directors. Investment transactions are defined as the purchase, sale or exchange of securities.

Annually: The Treasurer, or a duly appointed Deputy Treasurer, will submit an annual report to the Board of Directors and Chief Executive Officer within 30 days of the end of a fiscal year providing the following:

- i. A list identifying the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, the market value and source of the market value information;
- ii. A statement that the portfolio is in compliance with the Investment Policy and in accordance with Section 53646 or the manner in which the portfolio is not in compliance; and
- iii. A statement of MCE's ability to meet expenditure requirements for the upcoming 12 months.

Annual Review

The Investment Policy will be reviewed annually by the Treasurer, or a duly appointed Deputy Treasurer. Any changes to the Investment Policy will be submitted to the Board for approval.

Glossary of Investment Terms

AGENCIES. Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT YIELD. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

- MUNICIPAL SECURITIES.** Securities issued by state and local agencies to finance capital and operating expenses.
- MUTUAL FUND.** An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.
- NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).**
A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.
- NEGOTIABLE CD.** A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).
- PREMIUM.** The difference between the par value of a bond and the cost of the bond, when the cost is above par.
- PRIMARY DEALER.** A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.
- PRUDENT PERSON (PRUDENT INVESTOR) RULE.** A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."
- REALIZED YIELD.** The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.
- REGIONAL DEALER.** A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.
- REPURCHASE AGREEMENT.** Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.
- SAFEKEEPING.** A service to bank customers whereby securities are held by the bank in the customer's name.
- SUPRANATIONAL.** A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.
- TOTAL RATE OF RETURN.** A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.
- U.S. TREASURY OBLIGATIONS.** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.
- TREASURY BILLS.** All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.