MCE

Empowering Our Clean Energy Future

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PLEASANT HILL | RICHMOND | SAN PABLO | SAN RAMON | VALLEJO | WALNUT CREEK

MCE Special Finance Committee Meeting
Wednesday, July 29, 2026
10:00 a.m.

Belvedere City Hall
450 San Rafael Ave, Small Conference Room
Belvedere, CA 94920
(City of Belvedere)

Lamorinda Music
81 Lafayette Circle
Lafayette, CA 94549
(City of Lafayette)

Napa County Administration Building
1195 Third Street, Ste. 310
Napa, CA 94558
(County of Napa)

MCE Concord Office
2300 Clayton Road, Suite 1500, Wind Room
Concord, CA 94520
(City of Vallejo)

Liz Alessio, County of Napa (Committee Chair)
John McCormick, City of Lafayette (Committee Vice Chair)
Stephanie Andre, City of Larkspur
Charles Palmares, City of Vallejo
Sally Wilkinson, City of Belvedere

Public comments may be made in person or remotely via the details below.

Remote Public Meeting Participation

Video Conference:
https://us02web.zoom.us/j/83911081030?pwd=nJ6IsCQuBVcnnsuayq5sFLAtljICvk.1
Phone: Dial (669) 900-9128, Meeting ID: 839 1108 1030, Passcode: 167504

Materials related to this agenda are available for physical inspection at MCE's offices in San Rafael at 1125 Tamalpais Avenue, San Rafael, CA 94901 and in Concord at 2300 Clayton Road Suite 1500, Concord, CA 94520.

DISABLED ACCOMMODATION: If you are a person with a disability who requires an accommodation or an alternative format, please contact MCE at (888) 632-3672 or ada-coordinator@mceCleanEnergy.org at least 72 hours before the meeting start time to ensure arrangements are made.

The Finance 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.

1. Roll Call
2. Public Open Time for Items Not on the Agenda (Discussion)
3. Consent Calendar (Discussion/Action)

    C.1. 6.25.26 Meeting Minutes

4. Report from Chief Executive Officer (Discussion)
5. Review Draft of Management Analysis and Discussion with Draft Financial Statements Fiscal Year Ended (FYE) 2026 (Discussion)
6. Overview of Policy 013: MCE's Reserve Policy (Discussion)
7. Proposed Amendment of Policy 014: MCE's Investment Policy (Discussion/Action)
8. Committee & Staff Announcements (Discussion)
9. Adjourn

The next regularly scheduled Finance Committee meeting will be August 27, 2026, at 10:00a.m.

DRAFT

MCE FINANCE COMMITTEE MEETING MINUTES
Thursday, June 25, 2026
10:00 A.M.

Present:	Liz Alessio, Napa County, Chair Stephanie Andre, City of Larkspur John McCormick, City of Lafayette Sally Wilkinson, City of Belvedere
Absent:	Charles Palmares, City of Vallejo
Staff & Others:	Kaladhar Bollampalli, Director of Power Systems and Analytics Jesica Brooks, Executive Assistant and Lead Board Clerk Alcides Hernandez, Director of Rates Vicken Kasarjian, Acting CEO and COO Linda Lye, Senior Legal Counsel Efren Oxlaj, Manager of Finance Justine Parmelee, VP of Internal Operations Maíra Strauss, Chief Financial Officer Jamie Tuckey, Chief Customer Officer

1. **Roll Call**
   (Video 0:00:00)
   Chair Alessio called the regular Finance Committee meeting to order at 10:03 a.m. with quorum established by roll call.

2. **Public Open Time for Items Not on the Agenda (Discussion)**
   (Video 0:00:44)
   There were no comments.

3. **Consent Calendar (Discussion/Action)**
   (Video 0:00:59)
   C.1 6.25.26 Meeting Minutes

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

Action: It was M/S/C (McCormick/Andre) **to approve the Consent Calendar.** Motion carried unanimously. (Absent: Director Palmares).

4. **Report from Chief Executive Officer**
   (Video 0:02:09)

Vicken Kasarjian, Acting CEO and Chief Operating Officer, introduced this item and addressed questions from committee members.

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

5. Financial Audit Fiscal Year Ended 2026 Status Update (Discussion)

(Video 0:07:40)

Maíra Strauss, Chief Financial Officer, presented this item and addressed questions from Committee members.

Chair Alessio opened the public comment period and there was a comment made by member of the public, Alicia Minyen.

Action: No action required.

6. Interim Financial Statements Fiscal Year Ended 2026 (Discussion)

(Video 0:28:35)

Maíra Strauss, Chief Financial Officer, and Efren Oxlaj, Manager of Finance, presented this item and addressed questions from Committee members.

Chair Alessio opened the public comment period and there was a comment made by members of the public, Alicia Minyen, Jody Timms, and Dan Segedin.

Action: No action required.

7. Proposed Exception of Operating Reserve Fund Policy Cap and Transfer (Discussion/Action)

(Video 1:05:40)

Maíra Strauss, Chief Financial Officer, presented this item and addressed questions from Committee members.

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

Action: It was M/S/C (Andre/Wilkinson) **to recommend to the Board of Directors approval of both a temporary waiver of the ORF policy cap and an $80 million deferral of FYE 2026 revenues to the ORF.** Motion carried unanimously. (Absent: Director Palmares).

8. Committee & Staff Matters (Discussion)

(Video 1:21:00)

Director Wilkinson made comments.

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9. Adjournment

Chair Alessio adjourned the meeting at 11:25 a.m. to the next scheduled Finance Committee Meeting on July, 23, 2026.

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Liz Alessio, Chair

Attest:

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Justine Parmelee, Secretary

Empowering Our Clean Energy Future
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July 29, 2026

TO:	MCE Finance Committee
FROM:	Maíra Strauss, Chief Financial Officer
RE:	Review Draft of Management Analysis and Discussion with Draft Financial Statements Fiscal Year Ended (FYE) 2026 (Agenda Item #05)
ATTACHMENT:	Draft Management Analysis and Discussion with Draft Financial Statements

Dear Finance Committee Members:

Summary:
MCE's fiscal year runs from April 1st through March 31st. After the fiscal year ends, staff work with a professional third-party firm to audit the financial statements. Since 2018, Baker Tilly has been conducting MCE's financial audit in conjunction with staff and MCE's accounting firm, Maher Accountancy. As part of the audit for Fiscal Year Ended (FYE) 2026, staff is providing a draft of the section titled "Management Analysis and Discussion" (MD&A) and draft financial statements. The draft financial statements are provided for information only and cannot be changed. Committee members are invited to identify questions and provide feedback on the MD&A section.

Overview
The MD&A is required supplementary information that precedes the financial statements. It provides management's analysis of MCE's financial position and operating results. The MD&A includes comparisons with the prior fiscal year, explanations of significant changes, capital asset and financing activity, and currently known facts, decisions, or conditions expected to significantly affect future financial results.
The basic financial statements include:

- The Statement of Net Position, which reports MCE's assets, liabilities, deferred inflows of resources, and net position as of March 31, 2026 and 2025. This statement is comparable to a balance sheet and presents MCE's financial position at each fiscal year-end.
- The Statement of Revenues, Expenses, and Changes in Net Position, which reports MCE's operating and nonoperating revenues and expenses and the resulting change in net position for each fiscal year. This statement is comparable to an income statement and presents MCE's results of operations.
- The Statement of Cash Flows, which reports cash receipts and payments from operating, capital and related financing, and investing activities. It also reconciles operating income or loss to net cash provided by or used in operating activities.

Draft Financial Results
As reflected in the attached draft financials, MCE ended fiscal year 2026 with a total net position of approximately $418.3 million and an Operating Reserve Fund balance of $150 million. Operating revenues totaled $701.4 million, operating expenses totaled $721.3 million, and nonoperating revenues totaled $21.4 million, bringing the fiscal year change in net position to $1.5 million[1].

The draft MD&A discusses the principal factors contributing to FYE 2026 results, including:
- The $80.0 million deferral of operating revenue to the Operating Reserve Fund;
- The timing and cost of renewable energy deliveries;
- Lower electricity demand and related CAISO costs;
- Changes in current assets, investments, and accrued cost of electricity; and
- MCE's acquisition of the San Rafael office building.

The MD&A also discusses currently known facts, decisions, or conditions expected to affect future financial results, including:
- MCE's long-term power-purchase commitments;
- The rate reduction and customer relief measures effective April 1, 2026;
- Planned recognition of $62.0 million of previously deferred Operating Reserve Fund revenue during FYE 2027;
- The subsequent credit-rating actions and amended revolving credit facility and;
- Planned development and potential costs associated with the Remedial Action Scheme (RAS) project.

Finance Committee Review
The Finance Committee is welcome to review the MD&A draft and provide input regarding whether it:
1. Clearly and objectively communicates MCE's FYE 2026 financial results;
2. Adequately explains the principal reasons for significant year-over-year changes; and
3. Appropriately describes currently known facts, decisions, or conditions expected to significantly affect future financial results.

The financial statements remain subject to completion of the audit and may be revised based on the results of the audit procedures. The Committee is not being asked to approve or revise the financial statements.

Fiscal Impact:
None.

Recommendation:
None. Discussion only.

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[1] Previous interim financial statements showed a change in net position of $2.2 million. Subsequent revisions lowered revenue, leading to the updated change in net position of $1.4 million.

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2026 AND 2025

The purpose of management's discussion and analysis (MD&A) is to help stakeholders and other readers understand what the financial statements and notes in this report say about Marin Clean Energy's (MCE) financial health and why it has changed since last year. It contains information drawn from other parts of the report, accompanied by explanations informed by the finance staff's knowledge of MCE's finances. MCE's fiscal year runs from April 1 through March 31.

If you have questions about this report or require further information, please contact MCE at finance@mceCleanEnergy.org.

Overview of the Financial Statements

MCE's financial report contains basic financial statements:

- The *Statements of Net Position* include all of MCE's assets, liabilities, deferred inflows of resources, and net position and provide information about the nature and amounts of resources and obligations at a specific point in time.

- The *Statements of Revenues, Expenses, and Changes in Net Position* report all of MCE'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 and investing activities.

Financial Summary

MCE's Net Position

	2026	2025	2024
Current assets	$ 479,004,853	$ 512,168,716	$ 426,376,427
Noncurrent assets			
Capital assets, net	6,189,785	555,816	863,432
Other noncurrent assets	174,819,822	166,328,849	164,792,317
Total noncurrent assets	181,009,607	166,884,665	165,655,749
Total assets	660,014,460	679,053,381	592,032,176
Current liabilities	91,705,235	192,190,329	118,346,661
Deferred inflows of resources	150,000,000	70,000,000	70,000,000
Net position:			
Net investment in capital assets	6,189,785	555,816	326,788
Restricted	17,581,784	15,000,000	15,000,000
Unrestricted	394,537,656	401,307,236	388,358,727
Total net position	$ 418,309,225	$ 416,863,052	$ 403,685,515

As of March 31, 2026, MCE's total net position was approximately $418,000,000, an increase of $1,446,000 compared to March 31, 2025. See the discussion in the following section for the changes in the various components.

MCE's Changes in Net Position

	2026	2025	2024
Operating revenues	$ 701,422,195	$ 816,224,799	$ 767,779,391
Nonoperating revenues	21,369,348	25,354,208	15,420,160
Total income	722,791,543	841,579,007	783,199,551
Operating expenses	721,345,370	828,392,314	623,657,258
Nonoperating expenses	-	9,156	28,624
Total expenses	721,345,370	828,401,470	623,685,882
Change in net position	$ 1,446,173	$ 13,177,537	$ 159,513,669

For the year ended March 31, 2026, MCE's change in net position was an increase of approximately $1,446,000, a decrease of $11,731,000 from the prior year. See the discussion in the following section for the changes in the various components.

(Continued)

Detailed Analysis

Current assets decreased from $512,000,000 at the end of fiscal year 2025 to $479,000,000 at the end of fiscal year 2026. The decrease primarily reflects a shift in the maturity composition of MCE's investment portfolio, including a $60,000,000 decrease in investments classified as current, partially offset by a $53,000,000 increase in unrestricted cash and cash equivalents. Current assets at the end of fiscal year 2026 were primarily comprised of cash and investments of $354,000,000, accounts receivable of $68,000,000, and accrued revenue of $29,000,000.

Capital assets are reported net of depreciation and amortization. Each year, the change is mostly due to capital asset acquisitions, less depreciation and amortization expenses. Capital assets include leasehold improvements, furniture and equipment, and real estate related to MCE's office premises. Capital assets, net of accumulated depreciation and amortization, increased from $600,000 at the end of fiscal 2025 to $6,000,000 at the end of fiscal year 2026. The increase primarily resulted from MCE's acquisition of land and an office building during fiscal year 2026.

Other noncurrent assets include investments of $175,000,000 and $166,000,000 at the end of fiscal years 2026 and 2025, respectively. MCE manages its investment portfolio in accordance with its adopted investment policy, with consideration given to safety, liquidity, maturity, diversification, and anticipated cash-flow requirements.

Current liabilities decreased from $192,000,000 at the end of fiscal year 2025 to $92,000,000 at the end of fiscal year 2026. The largest component of current liabilities is the cost of electricity delivered to customers that was not yet paid by MCE at the end of the fiscal year. Accrued cost of electricity was approximately $59,000,000 and $158,000,000 at the end of fiscal years 2026 and 2025, respectively. The fiscal 2025 balance was comparatively high because it included substantial uninvoiced deliveries under a renewable energy contract executed during a period of elevated renewable energy prices. The fiscal 2026 balance included a lower amount of delivered energy for which invoices had not yet been received at year-end. Accordingly, the decrease primarily reflects differences in the amount and cost of delivered, but uninvoiced energy included in the accrual at each fiscal year-end. Accrued cost of electricity may fluctuate from year to year based on the timing and volume of energy deliveries, supplier invoicing and settlement activity, contractual payment terms, and the prices applicable to the products delivered.

MCE's Operating Reserve Fund increased from $70,000,000 at the end of fiscal year 2025 to $150,000,000 at the end of fiscal year 2026. The Operating Reserve Fund allows MCE to defer revenues in years of strong financial performance for potential recognition in future periods when financial results may decline. The fiscal year 2026 deferral reduced the increase in net position but provides additional rate stabilization capacity to help MCE manage future energy market volatility and other financial risks.

Operating revenues decreased by $115,000,00 in fiscal year 2026 compared with fiscal year 2025. The decrease was primarily attributable to the $80,000,000 contribution to the Operating Reserve Fund, which is reported as a reduction of operating revenues. Retail electricity sales also declined by

$33,000,000, reflecting slightly lower year over year electricity consumption. Mild weather during the summer of 2025 contributed to lower air-conditioning demand and, consequently, lower electricity load. MCE also receives revenue from sources other than retail customer sales, including grant revenue and liquidated damages resulting from electricity suppliers' noncompliance with contract provisions. Grant revenue increased modestly during the year, partially offsetting the decline in retail electricity sales.

Operating expenses decreased by $107,000,00 in fiscal year 2026 compared with fiscal year 2025. The decrease was primarily attributable to a $116,000,000 reduction in the cost of electricity. Energy costs fluctuate based on retail load, market prices, renewable energy and resource adequacy requirements, contract terms, hydroelectric and renewable generation, CAISO settlements, congestion, and the timing and mix of procurement. The year over year decrease reflects, in part, the timing of deliveries under a renewable energy contract executed during a period of elevated market prices. Although a significant portion of the associated deliveries had been forecasted for fiscal year 2026, the contract permits the seller to schedule deliveries at its discretion within the applicable calendar year. As a result, a significant portion of the higher-priced renewable energy was delivered and recognized as expense in fiscal year 2025, increasing that year's cost of electricity and reducing the volume of those higher-priced deliveries remaining for fiscal year 2026. Fiscal year 2026 energy costs were also lower because mild summer weather reduced customer electricity usage and related demand, resulting in lower California ISO (CAISO) market and settlement costs. These factors, together with generally lower energy costs compared with the prior year, contributed to the decrease in cost of electricity. In addition, as certain higher-priced contracts expired, replacement procurement occurred at more favorable market prices. These decreases were partially offset by ongoing operating costs necessary to support MCE's core operations and customer programs.

The table below summarizes the year-over-year change in MCE's main cost of energy categories.

	2026	2025	2024	$ change from 2026 to 2025	% change from 2026 to 2025
Energy Contracts	522,072,000	626,255,000	468,797,000	(104,183,000)	-17%
Resource Adequacy	130,444,000	142,264,000	102,607,000	(11,820,000)	-8%
Total	652,516,000	768,519,000	571,404,000	(116,003,000)	-15%

Energy contracts include PCC1 renewable energy agreements, non-renewable energy agreements, carbon free energy agreements, large hydro or asset-controlling supplier deals, and CAISO settlement costs.

Significant Capital Asset and Long-Term Financing Activity

MCE does not own assets used for electric generation or distribution. Included in capital assets are office equipment, such as computers, furniture, leasehold improvements and real estate. In July 2025, MCE purchased an office building and land for $5,400,000.

MCE does not have any outstanding financing debt. MCE has a revolving credit agreement with Royal Bank of Canada with a credit line of $60 million that was effective until May 2026 and subsequently amended as described in Currently Known Facts, Decisions, or Conditions.

Currently Known Facts, Decisions, or Conditions

MCE signs renewable energy agreements, procures electricity and electrical capacity and signs other power purchase agreements to comply with state law and elevated voluntary targets for renewable and greenhouse gas-free products as described in its Integrated Resource Plan. California law established a Renewable Portfolio Standard (RPS) that requires load-serving entities ("LSEs"), such as MCE, to gradually increase the amount of renewable energy they procure for their customers.

As of March 31, 2026, MCE had executed RPS contracts of ten years or more in duration that are projected to meet MCE's Senate Bill 350 long-term contracting requirements. Additionally, MCE is planning to continue its long-term RPS procurement as opportunities arise. Expected obligations under power purchase agreements totaled approximately $6.0 billion as of March 31, 2026 and $5.9 billion as of March 31, 2025. Actual future costs under these agreements may vary based on the timing and volume of energy deliveries, contract performance, and curtailment. MCE manages these risks by aligning procurement with forecast customer demand, diversifying its portfolio by technology, project location, contract term, delivery profile, and supplier. MCE also maintains counterparty credit, collateral, liquidity, and energy-risk-management practices.

Effective April 1, 2026, MCE implemented a 14% reduction in customer generation rates. MCE also implemented a temporary bill credit of $0.0062 per kilowatt-hour through December 2026 and approved an additional $10.0 million for the MCE Cares Credit program, which provides bill assistance to qualifying residential and small-business customers. These rate actions were adopted in consideration of declining forecasted energy costs, MCE's revenue requirements, rate competitiveness, and increases in the Power Charge Indifference Adjustment, or PCIA, charged by PG&E to MCE customers. The rate reduction, temporary bill credit, and expanded customer assistance are expected to reduce fiscal year 2027 operating revenues compared with the amounts that would have been generated under the prior rates schedule. To partially offset this reduction, MCE's Board approved the recognition of $62.0 million of previously deferred Operating Reserve Fund revenue during fiscal year 2027. Actual operating results may vary based on customer electricity usage, weather, market conditions, and future rate actions.

The PCIA is a state-authorized charge assessed and collected by PG&E from customers receiving generation service from community choice aggregators, including MCE. Changes in the PCIA do not directly affect MCE's reported revenues or expenses; however, they affect customers' total electricity bills and may influence MCE's rate competitiveness, customer participation, and future rate-setting decisions. The 2026 increase in the PCIA was one of the factors considered by MCE when approving the generation-rate reduction, temporary bill credit, and expansion of customer bill assistance. MCE will continue to monitor regulatory proceedings and changes in PG&E charges when evaluating future rates and customer programs.

In May 2026, S&P Global Ratings affirmed MCE's A issuer credit rating with a stable outlook. The rating assessment cited MCE's liquidity, diversified renewable energy portfolio, broad customer base, customer retention, and absence of outstanding debt. Fitch Ratings also maintained MCE's A- issuer default rating following its December 2025 review. MCE's investment-grade ratings support its ability to negotiate energy supply agreements and access financing and liquidity facilities on favorable terms.

In July 2026, following a 45-day extension, MCE finalized an amendment to its revolving credit agreement with Royal Bank of Canada. The amendment extended the facility through May 2027 and increased the available commitment from $60 million to $80 million. As of the date of this report, MCE had no outstanding borrowings or standby letters of credit under the facility. The facility provides an additional source of liquidity for operating and energy procurement requirements.

MCE continues to evaluate a Remedial Action Scheme, or RAS, in coordination with CAISO and PG&E to reduce curtailment affecting a contracted solar project in California's Central Valley. If implemented, the software-based solution may improve project deliverability and reduce curtailment-related energy costs. MCE budgeted approximately $10.2 million of capital outlay for the project in fiscal year 2027. The project's timing, ownership structure, implementation costs, regulatory approvals, and ultimate financial effects remain subject to technical evaluation and negotiations.

BASIC FINANCIAL STATEMENTS

MARIN CLEAN ENERGY

STATEMENTS OF NET POSITION

MARCH 31, 2026 AND 2025

	2026	2025
ASSETS		
Current assets		
Cash and cash equivalents - unrestricted	$ 242,125,512	$ 189,331,563
Cash equivalents - restricted for grant purposes	16,270,080	22,294,426
Cash equivalents - restricted for security reserve	17,581,784	15,000,000
Accounts receivable, net of allowance	67,953,267	63,716,419
Accrued revenue	29,032,067	32,246,942
Other receivables	18,803,237	22,849,094
Prepaid expenses	1,071,840	2,372,584
Investments	78,048,161	138,291,067
Deposits	8,118,905	26,066,621
Total current assets	479,004,853	512,168,716
Noncurrent assets		
Investments	174,622,647	166,170,227
Capital assets, net of depreciation and amortization	6,189,785	555,816
Deposits	197,175	158,622
Total noncurrent assets	181,009,607	166,884,665
Total assets	660,014,460	679,053,381
LIABILITIES		
Current liabilities		
Accrued cost of electricity	58,642,896	158,422,801
Accounts payable	4,433,294	3,980,165
Other accrued liabilities	10,160,357	5,353,759
User taxes and energy surcharges due to other governments	1,341,808	1,282,378
Security deposits - energy suppliers	856,800	856,800
Advances from grantors	16,270,080	22,294,426
Total current liabilities	91,705,235	192,190,329
DEFERRED INFLOWS OF RESOURCES		
Operating Reserve Fund	150,000,000	70,000,000
NET POSITION		
Net position		
Net investment in capital assets	6,189,785	555,816
Restricted	17,581,784	15,000,000
Unrestricted	394,537,656	401,307,236
Total net position	$ 418,309,225	$ 416,863,052

MARIN CLEAN ENERGY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED MARCH 31, 2026 AND 2025

	2026	2025
OPERATING REVENUES		
Electricity sales, net	$ 768,857,882	$ 805,098,581
Rate stabilization	(80,000,000)	-
Grant revenue	11,829,585	10,837,307
Other revenue	734,728	288,911
Total operating revenues	701,422,195	816,224,799
OPERATING EXPENSES		
Cost of electricity	652,516,462	768,519,084
Contract services	23,707,524	22,184,759
Staff compensation	28,475,316	24,719,274
Other operating expenses	16,417,632	12,336,595
Depreciation and amortization	228,436	632,602
Total operating expenses	721,345,370	828,392,314
Operating income (loss)	(19,923,175)	(12,167,515)
NONOPERATING REVENUES (EXPENSES)		
Investment income	21,369,348	25,354,208
Finance Costs	-	(9,156)
Nonoperating revenues (expenses), net	21,369,348	25,345,052
CHANGE IN NET POSITION	1,446,173	13,177,537
Net position at beginning of year	416,863,052	403,685,515
Net position at end of year	$ 418,309,225	$ 416,863,052

MARIN CLEAN ENERGY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2026 AND 2025

	2026	2025
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 782,441,917	$ 815,307,429
Receipts from grantors	6,228,908	9,028,291
Receipts of security deposits	18,988,991	4,118,400
Receipts from wholesale sales and other operating activities	23,803,994	61,191
Payments to suppliers for electricity and collateral	(769,518,931)	(705,397,207)
Payments for other goods and services	(39,785,558)	(35,595,730)
Payments for deposits and collateral	(449,563)	(21,226,265)
Payments for staff compensation	(27,094,705)	(22,614,450)
Payments of taxes and surcharges to other governments	(13,249,249)	(12,818,095)
Net cash provided (used) by operating activities	(18,634,196)	30,863,564
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments of lease liabilities	-	(545,801)
Payments to acquire capital assets	(5,612,405)	(324,986)
Net cash used by capital and related financing activities	(5,612,405)	(870,787)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	23,355,477	16,641,296
Proceeds from sales and maturities of investments	115,447,674	47,017,973
Purchase of investments	(65,205,163)	(78,375,562)
Net cash provided (used) by investing activities	73,597,988	(14,716,293)
Net change in cash and cash equivalents	49,351,387	15,276,484
Cash and cash equivalents at beginning of year	226,625,989	211,349,505
Cash and cash equivalents at end of year	$ 275,977,376	$ 226,625,989
Reconciliation to the Statement of Net Position		
Cash and cash equivalents - unrestricted	$ 242,125,512	$ 189,331,563
Cash equivalents - restricted for grant purposes	16,270,080	22,294,426
Cash equivalents - restricted for security reserve	17,581,784	15,000,000
Cash and cash equivalents	$ 275,977,376	$ 226,625,989
NONCASH INVESTING ACTIVITIES:		
Change in fair value of investments	$ (667,708)	$ 8,712,912
Change in interest receivable	$ (1,318,421)	$ 81,606

MARIN CLEAN ENERGY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2026 AND 2025
(CONTINUED)

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

	2026	2025
Operating income (loss)	$ (19,923,175)	$ (12,167,515)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization expense	228,436	632,602
(Increase) decrease in:		
Accounts receivable, net	(4,236,848)	(2,268,779)
Accrued revenue	3,214,875	(334,474)
Other receivables	2,727,436	(16,944,778)
Prepaid expenses	1,300,744	(1,400,381)
Deposits	18,539,430	(11,033,423)
Increase (decrease) in:		
Accrued cost of electricity	(99,779,905)	90,472,512
Accounts payable	453,129	(572,277)
Other accrued liabilities	4,806,598	2,640,346
User taxes and energy surcharges due to other governments	59,430	(5,994)
Security deposits - energy suppliers	-	(126,600)
Operating Reserve Fund	80,000,000	-
Advances from grantors	(6,024,346)	(18,027,675)
Net cash provided (used) by operating activities	$ (18,634,196)	$ 30,863,564

July 29, 2026

TO:	MCE Finance Committee
FROM:	Maíra Strauss, Chief Financial Officer
RE:	Overview of Policy 013: MCE's Reserve Policy (Agenda Item #06)
ATTACHMENT:	Policy 013: Reserve Policy

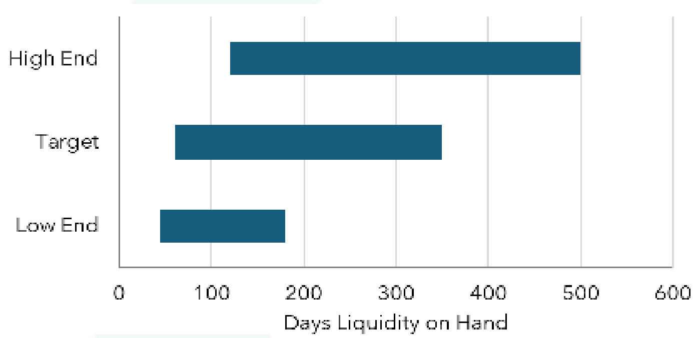
Dear Finance Committee Members:

Summary
This discussion item provides MCE's current liquidity position and a comparison of CCAs and other public agencies to support Board discussion on whether the current Policy 013: Reserve Policy should be updated. MCE last reviewed its financial liquidity target in November 2019, when the Board adopted a target of 240 days cash on hand. As part of this discussion, staff is evaluating whether the policy should be simplified by focusing exclusively on a Days Liquidity on Hand (DLOH) target rather than the reserves percentage measure, ensuring the policy remains modern, easy to administer, clearly communicated, and aligned with current industry best practices.

Analysis
Staff reviewed publicly available liquidity practices across 31 public agencies, including Community Choice Aggregation (CCA) and publicly owned entities, to compare MCE's financial liquidity target with peer best practices. The review summarizes common target ranges and adopted liquidity levels in days liquidity on hand, which are shown in the chart that follows.

Figure 1: Days Liquidity on Hand Policy
Policies Comparison

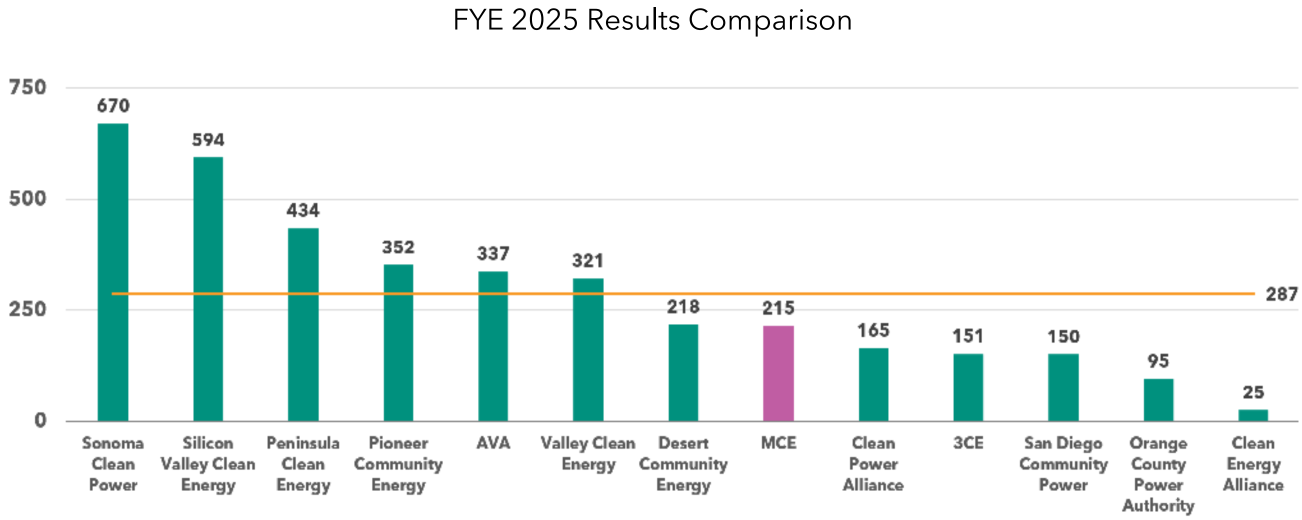
Level	Low End	Target	High End
Minimum	45	60	120
Average	109	179	271
Maximum	180	350	500



Source: Survey from 31 public agencies.

As shown in Figure 1, there is a range of adopted liquidity levels across all agencies presented. Of the 31 agencies surveyed, 18 have defined targets, 14 have values in the low-end range, and 8 include a cap or maximum value. The spread among agencies with low-end values ranges from 45 to 180 days with an average of 109 days. Targets range from 60 days up to 350 days, with an average of 179 days for agencies that set one. In the high end, the range varies from 120 days up 500 days, with an average of 271 days.

Figure 2: Days Liquidity on Hand Audited FYE 2025



Source: Financial reports from agencies for FYE 2025

Figure 2 shows liquidity levels based on FYE 2025 audited results. Results indicate that the actual range of days cash varies from 25 to 670 with an average of 287 days across all the agencies shown in the chart. MCE's level in FYE 2025 was 215 days, which was slightly below the current policy target of 240 days and below the overall average of comparable agencies. At the end of FYE 2026, MCE had 250 days of liquidity, above the goal by 10 days. Results fluctuate year over year depending on increases or decreases to the cost of energy and operating expenses.

Based on this review, staff finds that MCE's current liquidity target remains generally consistent with peer practices. The Committee may wish to consider updates that further align the policy with current industry practices while maintaining a framework that is simple, transparent, and meaningful for financial planning and that supports rate stability.

Fiscal Impact:
None.

Recommendation:
Discussion only.

APPROVED

Date: 6/20/24

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POLICY 013: Reserve Policy

Policy Statement

MCE will adopt budgets and establish rates that provide for a growing Reserve until target funding levels are met.

The Reserve will grow to and be maintained at a funding level equal to or exceeding 60% of projected energy and operating expenses for the current fiscal year. The Reserve will be accounted for as the Net Position in MCE's financial statements.

The MCE Board will adopt budgets and establish rates for MCE with the goal of building and maintaining Reserves at or above the target level by March 2022, subject to MCE's ability to meet operational expenditures and maintain competitive rates.

Policy Purpose

MCE will prudently manage its operations in a manner that supports its long-term financial independence and stability while providing sufficient financial capacity to meet short term obligations. This Reserve Policy is important in meeting MCE's strategic objectives, securing favorable commercial terms from both third-party service providers and lenders and in the maintenance and potential improvement in MCE's stand-alone credit ratings.

Adequate Reserves will enable MCE to satisfy working capital requirements, procure energy at competitive rates, adhere to loan or bond covenants, cover unanticipated expenditures, and support rate stability.

Relationship to the Budget, Liquidity and Periodic Review

By setting rates and authorizing expenditures through approved Budgets, MCE determines targeted additions to Reserves. Staff will carefully monitor MCE's liquidity to ensure it meets the objectives of the organization with the goal of securing 240 days liquidity on hand[1]. Staff will review the Reserve Policy annually to ensure it meets the needs of the agency. The future development of MCE may require the expansion of reserve requirements to support new activities such as major expansion of MCE activities or the acquisition of generating assets.

[1] Days liquidity on hand = unrestricted cash and investments x 365 / (operating expenses + cost of energy, each for the current fiscal year)

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July 29, 2026

TO:	MCE Finance Committee
FROM:	Maíra Strauss, Chief Financial Officer
RE:	Proposed Amendment of Policy 014: MCE's Investment Policy (Agenda Item #07)
ATTACHMENT:	Policy 014: MCE's Investment Policy Redline

Dear Finance Committee Members:

Summary

MCE's Investment Policy (Policy 014) establishes the guidelines governing the management of MCE's cash, deposits, and investments. The policy is reviewed periodically to ensure continued compliance with California Government Code requirements and alignment with industry best practices. Staff have been working with MCE's investment advisor, Chandler Asset Management, to complete a comprehensive evaluation of the policy. Several targeted updates to reflect recent statutory changes, enhance portfolio management flexibility, and improve policy clarity are recommended. The proposed amendment is intended to incorporate recent California Government Code requirements, ensure the policy remains modern, clearly articulated, easy to administer, and aligned with current industry best practices while maintaining MCE's investment philosophy and focus on safety and liquidity.

Overview

MCE's investment program is governed by California Government Code Sections 53600 et. seq and is designed to achieve three primary objectives, in order of priority:

- Preservation of principal;
- Maintenance of adequate liquidity to meet operational needs; and
- Attainment of an appropriate market rate of return consistent with safety and liquidity objectives.

The recent review concluded that MCE's Investment Policy remains effective and well-designed, with recommended revisions focused primarily on incorporating changes to California law, expanding certain diversification opportunities, and improving policy readability and administration

Proposed Policy Updates

The proposed amendments include the following key updates:

Extended maturity limits for selected securities. The policy would allow investments in U.S. Treasury obligations, federal agency securities, and municipal securities with maturities of up to seven years. California Government Code permits maturities longer than five years for these asset classes when specifically authorized by the governing body. Our investment strategy continues to focus primarily on maturities between one and five years but would benefit from flexibility to selectively purchase securities with slightly longer maturities when market conditions warrant. The proposed change provides additional flexibility to diversify maturities and potentially enhance investment returns while maintaining investments in high-quality securities.

Commercial paper revisions. The maximum maturity for commercial paper would increase from 270 days to 397 days, consistent with current California law. Additional revisions update the policy language to align more closely with statutory requirements and current market practices.

Addition of bankers' acceptances. Bankers' acceptances would be added as an authorized investment type. These short-term instruments are commonly used by public agencies and provide additional diversification opportunities while maintaining a conservative credit profile.

Commercial paper updates. Policy language would be updated to reflect current statutory provisions governing placement service deposits and related concentration limits through January 1, 2031. The update would bring MCE's policy in line with AB 2618.

Money market mutual fund clarification. Revisions simplify the policy language and align eligibility requirements more closely with California Government Code, improving clarity and readability.

Municipal securities enhancements. The minimum rating requirement for municipal securities would be adjusted from "A+" to "A" or equivalent, and eligible issuers would be expanded to include qualifying obligations from all U.S. states. MCE's current "A+" requirement exceeds both California Government Code requirements and common industry practice. These changes may increase diversification opportunities while maintaining investment-grade standards.

Expansion of eligible municipal issuers. The policy would authorize investments in qualifying municipal obligations issued by all U.S. states rather than limiting investments primarily to California issuers (AB 1745). This authority may improve diversification and liquidity opportunities within MCE's investment portfolio.

Local Government Investment Pools (LGIPs). The policy would authorize investments in qualifying Joint Powers Authority investment pools, providing an additional tool for managing short-term liquidity needs.

Prohibited investment update. New language would prohibit the purchase of securities with forward settlement dates exceeding 45 days, consistent with recent updates to California law (SB 1489).

The recommended changes modernize the policy framework, improve clarity and readability, provide additional administrative flexibility, and align the policy with current statutory requirements and public-sector investment best practices. The revisions also expand diversification opportunities and investment management tools available to staff while preserving MCE's long-standing commitment to prudent stewardship of public funds.

Fiscal Impact
None at this time. Certain revisions provide additional flexibility to enhance portfolio diversification and investment earnings over time.

Recommendation
Recommend that the Finance Committee recommend to the Board of Directors approval of the Amendment of the Policy 014: MCE's Investment Policy.

APPROVED

Date: 3/16/23

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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 the Governing Body.

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 53600.3.1[1]: “Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds

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

are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, 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 seven ~~5~~ (7) years. There are no limits on the dollar amount or percentage that MCE may invest in U.S. Treasuries.

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 seven ~~5~~ (7) 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~~ 397 days; and
~~iii. No more than 10% of outstanding commercial paper shall be from any single issuer.~~

The issuer of commercial paper must meet all of the following conditions in either paragraph (a) or (b) specified below:

a. ~~have the following:~~Securities issued by corporations:
   i. A corporation organized and operating in the United States with ~~Assets~~ assets in excess of $500 million;
   ii. ~~A credit rating of~~The securities are rated A-1 or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO); and
   If the issuer has other debt obligations, they must be rated in a rating category of "A" or its equivalent or better by at least one NRSRO.~~A senior debt rated at A or better.~~
   iii.

b. Securities issued by other entities:
   i. The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
   ii. The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
   iii. The securities are rated "A-1" or its equivalent or better by at least one NRSRO.

Additionally, under a provision sunsetting on January 1, ~~2026~~2031, no more than 40% of the portfolio may be invested in Commercial Paper if ~~the Agency's~~MCE'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.

Bankers's Acceptances, provided that:

- They are 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 debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- No more than 40% of the total portfolio may be invested in Banker's Acceptances.
- No more than 5% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 180 days.

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.
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~~ 30 percent and the maximum investment maturity will be restricted to five years, unless otherwise prescribed by law. Under a provision sunsetting on January 1, 2031, no more than 50 percent of the portfolio may be invested in deposits through a placement service, including Certificates of Deposit, if the investing agency is a city, district or local agency that does not pool money with other local agencies.

Money Market Funds: Funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:

i. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
ii. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million.

- No more than 20% of the total portfolio may be invested in Money Market Mutual Funds, and the shares of any one Money Market Mutual Fund.
- ~~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 in the aggregate.

- The maximum maturity does not exceed ~~five~~ seven (~~5~~7) years.

Municipal Securities: Registered Treasury Notes of Bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

- The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- No more than 5% of the total portfolio may be invested in any single issuer.
- No more than 30% of the total portfolio may be in Municipal Securities in the aggregate.
- The maximum maturity does not exceed seven (7) 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 security is issued by~~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 not defined as issuers of U.S. Treasuries, Federal Agencies, and Government Sponsored Enterprises in the preceding paragraphs of the Authorized Investments section of this policy: 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.

Local Government Investment Pools (LGIP): Defined as shares of beneficial interest issued by a Joint Powers Authority (JPA): provided that:

- The JPA is organized pursuant to California Government Code Section 6509.7 and invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive.
- Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA.
- The JPA has retained an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years’ experience investing in instruments authorized by Section 53601, subdivisions (a) to (q).

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 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. The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

Investment Portfolio Management

The term to maturity of any funds invested as measured from settlement date to maturity date shall not exceed 5 years pursuant to Section 53601~~.~~ unless the MCE Board has by resolution granted authority to make such an investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment. U.S. Treasury securities, federal agency obligations, and municipal securities may be invested in securities with maturities no longer than seven (7) years. 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, as defined in Section 25004 of the Corporations Code, with proof of FINRA certification.
- 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.
- Savings association or federal association (as defined in Section 5102 of the Financial Code).
- 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 rebalance duration, improve credit quality or increase diversification, 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.

<u>Risk Management and Diversification—Mitigating Market Risk in the Portfolio</u>

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 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.

<u>Conflict of Interest</u>

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.

<u>Audits</u>

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 45 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.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

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.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

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.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

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.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

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.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

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.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

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.