

**Nonstock Security Pilot Project Program
Sacramento Municipal Utility District**

Pilot Project Program Description

1. **Purpose:** To provide an opportunity for a return on investment from SMUD's contribution to the development of goods or services procured from a corporation or private entity, consistent with Strategic Directives (SD-10: Innovation, SD-13: Economic Development, and SD-19: Diversified Business).

2. **Definitions:**

Acquisition – An act of obtaining an asset.

Financial Interest – Any monetary interest that is equal to or exceeds the ownership of 3 percent of the shares of a corporation for profit, provided that the total annual income to them from dividends, including the value of stock dividends, from the corporation does not exceed 5 percent of their total annual income, and any other payments made to them by the corporation do not exceed 5 percent of their total annual income.

Nonstock Security – A “security,” as defined in Section 25019 of the California Corporations Code, that is not a stock.

Stock – A distinct type of security that specifically includes an ownership interest in a corporation, where the owner is entitled to participate in: (i) the company's management (e.g., has a voting right); (ii) a proportionate share of profits; and (iii) distribution of assets upon dissolution of the company. Its unit of measurement is the share.

3. **Conflict of interest:** To avoid any potential conflict or perceived conflict of interest and to prevent violations of applicable conflict of interest rules including Cal. Gov't Code § 1090, et seq.; the Political Reform Act (Cal. Gov't Code § 81000, et seq.); and the Fair Political Practices Commission Regulations (Cal. Code of Regulations § 18700, et seq.), SMUD shall not enter into an agreement to acquire a nonstock security interest in a corporation or private entity under any of the following situations:
 - a. A board member, or spouse or dependent child of the board member, has a financial interest in the corporation or private entity.

- b. A board member, or spouse or dependent child of the board member, has a personal or familial relationship with any officer or employee of the corporation or private entity.
- c. An executive officer of SMUD, or spouse or dependent child of the officer, has a financial interest in the corporation or private entity.

Board members and certain other SMUD staff are each to file annually a Statement of Economic Interests (Form 700) to ensure that those public agency officials are disclosing certain financial interests in a manner that is transparent. It also serves as a reminder for public agency officials and employees to abstain from participating in decisions, including agreements, that could enhance their personal finances in a manner that is inconsistent with law or policy.

Prior to entering into an acquisition agreement, SMUD shall review Board members' most recent financial disclosure filing for potential financial conflicts of interest related to the acquisition.

Further, existing federal and state laws prohibit individuals from purchasing or selling a security when that individual knows material, non-public information about a company which would significantly affect the market price of the security in that company (e.g., company stock price). To avoid any appearance or accusation of insider trading, SMUD shall not use such material non-public information for any purpose other than to evaluate the proposed transaction including, but not limited to, the acquisition of nonstock security interest in such corporation or private entity. In addition, SMUD shall not trade (purchase or sell) the securities of such corporation or private entity so long as it is in possession of such material information that has not first been made public.

4. **Determination of how much of nonstock security to accept:** Prior to SMUD's acquiring any nonstock security, the Business Unit initiating the procurement of the underlying goods or services shall, in consultation with New Business Development and Treasury Departments, ensure that:
 - a. SMUD, overall, receives a reasonable return for SMUD's investment, considering, at a minimum, the value of the following: (i) use of any SMUD intellectual property; (ii) SMUD's investment of staff time; and (iii) use of SMUD facilities for field testing; and
 - b. The value of the nonstock security acquisition does not unduly influence the amount paid for the associated goods and services.

5. **Payment of associated goods or services:** SMUD may only hold nonstock security in a corporation or private entity if acquired as part of a procurement of goods or services from that entity. The price paid for such goods or services should not be increased due to the availability of acquiring nonstock security in that corporation or private entity. SMUD is not “purchasing” the nonstock security, so no cash will be exchanged solely for the acquisition of the nonstock security. Any acquisition of nonstock security is incidental to the procurement of goods or services.
6. **Approval for acquisition:** The Chief Executive Officer and General Manager shall seek Board approval prior to entering into an acquisition agreement.
7. **Reporting to the Board:** Staff shall report annually to the Board on the status of this Pilot Project Program and any related acquisitions.
8. **Management of Security:** All decisions and administrative actions concerning the management of any security issued to SMUD by a corporation or other private entity shall be recommended by the Chief Financial Officer or her delegee and approved by the Board. This includes decisions on when the security will be exercised or converted to cash. The Chief Financial Officer shall carry out this function consistent with her delegated investment authority.
9. **Distribution of Security Interest:** Upon such time that SMUD’s security interest is sold for cash, the proceeds will be received and recorded by SMUD accounting, indicating the source of funds. SMUD’s subsequent use of any cash proceeds shall be in accordance with SMUD policies and to benefit SMUD ratepayers.
10. **Related Reference:** SD-10 Innovation; SD-13 Economic Development; SD-19 Diversified Business; BL-8 Procurement; BL-14 Products, Services and Programs