Finance Committee Notes

August 6, 2012

The Finance Committee met at 3:00 pm on May 14, 2012, with Dan Enloe, Finance Committee chair; Debbie Kitchin, Board Vice Chair; Margie Harris, Executive Director; and Sue Sample, CFO attending. Also attending were representatives from Umpqua Investments: Omar Marquez, Scott Baines and Brian Joelson.

Umpqua Bank proposal for improved investment return

Omar explained that Umpqua Investments is a wholly-owned subsidiary of Umpqua Bank. It actually began operations as Atkins and Company in the 1920's.

Umpqua's investment group has studied Energy Trust's investment policy and developed four different portfolios with varying returns that:

- Meet Energy Trust's investment criteria
- Provide no to low risk returns
- Provide a better rate of return than we are currently achieving with available cash

In the current interest rate environment, the best return could be achieved with a CD Ladder comprised of brokered CD's in amounts less than $250,000 each and therefore be FDIC insured. The CDs in the sample portfolio would be laddered over a five-year time span. (Laddered refers to the concept of staggering maturities so as to optimize the yield.)

Other sample portfolios provided would not be FDIC insured but would still provide improved returns as compared with yields Energy Trust is receiving through its CDARs investments (at .20%). But there is more risk of principal loss of varying degrees. The other three portfolios consisted of:

- a corporate bond ladder which would invest in corporate bonds again with maturities up to five years at various coupon rates and with acceptably strong ratings
- a national municipal bond ladder which would invest in national municipal bonds including general obligation bonds at laddered maturities up to five years
- an Oregon municipal bond ladder which would invest in Oregon based bonds, general obligation or revenue bonds

Scott's expertise and relationships with bond fund managers create opportunities for access to a variety of good opportunities. A ladder could be created with investments from some or all those individual categories at Energy Trust's discretion. As interest rates increase, better returns could be achieved by moving more toward corporate bonds.

The committee discussed the logistics of establishing the accounts with Umpqua. Custody of the actual assets would be with First Clearing Bank and would not be co-mingled with Umpqua funds. When an investment opportunity within Energy Trust's guidelines presented itself, Umpqua would call one of three authorized individuals to verbally approve the trade. The transaction fee (and Umpqua's revenue source) is approx. $5 per transaction which would be netted from our investment. They would then provide monthly reports of activity for Energy Trust to use in monitoring. Umpqua would be responsible for monitoring the FDIC numbers (for the brokered CD's) to ensure that no investment exceeded the $250,000 limit.

The opportunity came about as a result of Sue's preparation of an RFP for investment advisory services. In subsequent conversations with Omar, it appeared that Umpqua Investments could provide that assistance at a relatively low cost, both on a transaction and on an administrative basis. After conferring with Dan Enloe, Treasurer, the RFP was held pending the outcome of this meeting.

Debbie expressed the need to maintain liquidity while managing the political risk of too much carryover, although much of the carryover amounts consist of funds dedicated and committed to future completion of specific projects. She noted that investment in Oregon municipalities could serve multiple purposes besides just increasing Energy Trust's yields. Scott responded that liquidity could still be accomplished in urgent situations at a marginal cost. The more notice the OPUC could provide Energy Trust of impending legislation regarding funding changes, the better Energy Trust could manage the liquidity issue at a reduced cost.

Sue suggested Energy Trust could initiate a change in investment strategy by creating a ladder of brokered CDs using the interest reserve (or revenue reserve) amount that Energy Trust maintains to provide revenue stability. This would be in the $8 to $10 million dollar range. Then the committee could consider expanding the investments to match the timing of cash needs based on the success of the initial pilot and improved forecasts of cash requirements.

The committee asked Sue to prepare a briefing paper on the issue for the Committee's presentation to the Board in September.

Review of June 30, 2012 Financial Statements

The committee had been previously provided copies of the June 2012 financial statements and the contract summary report. Comments and questions were solicited. Questions revolved primarily around variances in the income statement including:

- overage in incentives payments caused primarily by higher than budgeted incentives in the solar program, since the program is running so hot and due to the effect of the kick start bonus
- overage in non-capitalized equipment and depreciation expense caused by the net effect of the write-off of capitalized costs of the Epicor project
- shortfall in revenue caused by both timing differences and utility forecasting discrepancies.

Other than these items, the committee identified nothing unusual in the reports, merely a continuation of trends from earlier in the year.

Review of 2013 budget preparation calendar

Sue provided the committee a copy of the budget calendar for the preparation of the 2013 budget and action plan, focusing their attention on the dates the committee will review budget materials—October 22nd and November 26th.

Finance Committee Schedule

The next finance committee meeting is scheduled for October 22nd.

The meeting adjourned at 4:15 pm.