Finance Committee Notes

March 28, 2011

The Finance Committee met at 3:00 pm on March 28, 2011, with John Klosterman, Treasurer and Finance Committee chair; Debbie Kitchin, Board Vice Chair; Dan Enloe (via phone), Board member; John Reynolds (via phone), Board Chair, Margie Harris, Executive Director; Sue Sample, CFO and Cheryle Easton, Office Manager, attending. Also attending were Chris Elsenbach and Nancy Petrusich from CresaPartners, Energy Trust's real estate brokers.

Potential Lease Terms

The primary topic for discussion were terms of the potential lease with the Lincoln Building. At their February 9, 2011, executive session, the Board previously authorized Margie to negotiate the best possible terms for leasing office space once the lease expires in our current space. Certain specific conditions were included in this delegated authority:

- Less than $25 per square foot
- Lease cost less than $720,000 per year
- Total average occupancy cost less than $840,000 per year
- Subject to prior review of terms by Finance Committee

With the help of CresaPartners, Staff has been negotiating with the owners of the Lincoln Building to secure satisfactory lease terms for space available on the third floor. Staff is in the final stages of these negotiations and expects to have a final lease, building delivery conditions and pricing plan available this week, with a target date to sign the lease by April 4, 2011.

Staff described some of the basic lease terms for the committee:

- The commencement date would be November 16, 2011. This timing avoids the City's downtown moratorium on moving during the holiday season, falls between our draft and final budget and occurs before final budget comments are due, The date also allows for Staff, particularly IT staff involved in the transition, to still enjoy their Thanksgiving holiday.
- The termination date is scheduled to be July 31, 2019 for a total of 7.5 years.
- Lease payments ranging from just above $18.00 per square foot to approximately $23.00 per square foot over the term of the lease, with an approximate average lease amount of $650,000 per year.

Other issues discussed included early access, payment due dates, delayed commencement penalties, expense review opportunities, electrical services and metering, HVAC services and metering, and holdover rent at the end of the lease term. The committee also reviewed the terms of the contraction rights negotiated. A copy of the most recent floor plan was presented and discussion took place about the Board room layout and daylighting opportunities as well as the potential for additional expenses and their corresponding management.

John K. asked for feedback from each committee member about their comfort in moving forward with the lease terms as indicated. There was unanimous agreement that the process was appropriately transparent, that moving to a Class B space from a Class A building was more appropriate for our organization, and that the Committee was satisfied with the basic lease terms discussed.

December 2010 Draft Audited Financial Statements

The committee briefly reviewed the audited financial statements as contained in the Board packet and as to be reviewed at the March 30, 2011, audit committee and board meetings.

Sue indicated that there were two major topics that became issues as a result of this year's audit:

1. The capitalization of costs incurred in the ISI project. Under the terms of the previous guidance for capitalization of software, the nature of the expenditure drove the capitalization treatment. Under the new FASB (Financial Accounting Standards Board) codification of US GAAP (Generally Accepted Accounting Principles), the project phase is the more pertinent factor, with the nature of the expenditure being secondary. While Energy Trust purchased the Epicor software system in September, most of the work by staff and consultants in 2010 was training and business process mapping work, which Energy Trust considers properly expensed. There were also some reclassifications to be made with regard to software maintenance. Pati will be developing guidelines for expensing and capitalizing costs for 2011 to provide to staff.

2. The recording of the value of Green Tags. Energy Trust worked with the Perkins auditors in defining the conditions about the capitalization and valuation of Green Tags for purposes of financial statement disclosure. Perkins developed a model for recording the valuation. Through the course of their internal consideration, Perkins ultimately decided that the tags could be considered an intangible asset, which allowed for the valuation methodology to hinge more appropriately on Energy Trust's intentions with regard to the tags. Since Energy Trust does not intend to sell the tags, this treatment would have no income statement impact.

Special Topic

Margie explained to the committee, that as a result of the Secretary of State's performance of preliminary audit work of the recipients of SB 1149 funds, a misinterpretation in the way Pacific Power had been recording the self-directed credits for those funds was identified. Instead of applying the self-direct credits applicable to large electricity users just against Energy Trust's portion of the collections, Pacific Power had applied those credits to all the SB 1149administrators, including the Educational Service District's (ODOE) and Housing and Community Services (HCS) for low-income housing and weatherization. This misinterpretation resulted from a change in an ODOE rulemaking in 2004. From 2005 through 2010, Energy Trust received $877,000 more in revenue from Pacific Power than we should have, while the other administrators received less.

Margie and Sue met with representatives from Pacific Power last week and are scheduled to meet in Salem next week (April 5th) with representatives from Pacific Power, the OPUC, and the Secretary of State's auditor's office. Energy Trust will suggest we immediately refund the overpayment amount to Pacific Power who in turn will re-allocate the funds to both ODOE and HCS consistent with the correct rulemaking interpretation. Energy Trust has sufficient funds stemming from two delayed renewable energy projects in Pacific Power service territory and from 2010 carryover funds to cover this reduced revenue. Staff will also analyze what impact this reduction may have on projects now in the pipeline for both efficiency and renewable energy.

The Secretary of State's auditors have assured Energy Trust that this was the only finding related to us and that we would not be the subject of any further examination of SB 1149 funds.

Next Meeting

The next meeting is scheduled meeting for April 11, 2011.