Briefing Paper
Proposal for Improved Financial Investment Return

September 19, 2012

Summary

Provide background information for the full board regarding a decision to be made by the Finance Committee concerning the investment of some Energy Trust funds.

Background

- In 2001, the Board adopted an investment policy (see attached) which provided guidelines to the Finance Committee regarding investment of funds obtained in the normal course of Energy Trust business.
- In 2006, the Finance Committee reviewed that policy and considered it still valid.
- During the economic downturn, the Committee decided that preservation of capital was the primary concern; therefore investments would only be made in vehicles which are FDIC insured. This involved a product known as Certificate of Deposit Account Registry Service (CDARS), bank CD's in values below $250,000.
- With these investment vehicles, Energy Trust currently earns a return of 0%-.20% for 30-90 day maturities.
- Treasury Bills are currently earning between .05% and .14% for investment timeframes similar to our CDARs investments.
- Prior to the release of an RFP for investment advisory services, Umpqua Investments, a wholly owned subsidiary of Umpqua Bank, brought Energy Trust a proposal that would provide options to likely improve the return rate with varying degrees of risk and at a very low cost.
- Since Umpqua Bank is already Energy Trust's bank of record, the Finance Committee decided to save time and money and forgo consideration of other investment advisors via an RFP until such time as the scope can be broadened beyond fixed-income securities.
- Recently, the Board confirmed two sources of cash reserves for the organization:
  - Program reserves resulting from annual revenue negotiations with the individual utilities and earmarked for use in attaining savings unforeseen in the original budget process.
  - Interest reserves resulting from accumulated interest income and earmarked as a protection against revenue fluctuations, due to forecast variations or weather influences.
- With the Board's acknowledgement, the Finance Committee will proceed with the proposal to begin investing a portion of the above-referenced interest reserves as described below.

Discussion

- Umpqua Investment began operations in the 1920's as Atkins and Company.
- Umpqua Investments provides strong knowledge of the Oregon investment market combined with years of experience throughout all fixed income sectors.

- Their proposal for Energy Trust offered four different fixed income options with varying risk and return rates.
- Energy Trust could choose from any of the options or “mix and match” investments, but will begin with the most secure of the investment options.
- Energy Trust administrative costs associated with these investments will be low.
- There is an active market for these investments.
- Sales can be readily made if needed for early liquidation.
- Penalties for early liquidation are relatively small.
- The four options all involve “laddering,” a staggered approach based on timing for maturities to optimize yield; these are described briefly in the table below.

Brokered CD’s—FDIC insured CD’s with values below $250,000 each and laddered maturities up to 60 months	Sample ladder: Average maturity: 3.03 years Average yield to maturity: .983%
Corporate Bonds—Not FDIC insured but with ratings falling well within investment policy guidelines and with maturities up to 60 months	Sample ladder: Average maturity: 2.97 years Average yield to maturity: .933%
National Municipal Bonds—municipal bonds with various agencies evaluated for solid ratings and with maturities up to 60 months	Sample ladder: Average maturity 3.02 years Average yield to maturity: .836%
Oregon Municipal Bonds—Oregon state or Oregon based municipal bonds with maturities up to 60 months. These are more difficult to come by, and Umpqua might be able to provide some limited access to these investments	Sample ladder: Average maturity 4.12 years Average yield to maturity: .755%

Next Steps

- The Finance Committee would like to initiate investments of some of Energy Trust interest reserves primarily in Option 1, brokered CD’s.
- Barring any objections from the Board, the Finance Committee intends to authorize staff to begin negotiations with Umpqua Investments to initiate the process.
- As is required by our grant agreement with the OPUC, the Finance Committee wishes staff to notify the OPUC of our intent to enter into investments of a longer-term nature, namely greater than two years.
- As interest rates increase, the Committee suggests Energy Trust invest in other vehicles in addition to brokered CD’s, particularly those investments that benefit Oregon companies or institutions.
- The Finance Committee will review results of the investment activity at each of their regularly scheduled meetings to determine whether the additional returns are being achieved.