



news & views

from Lincoln Electric Cooperative, Inc.

Your Touchstone Energy® Cooperative 

Proposed By-Laws Changes for 2020 Annual Meeting

Page 5: Proposed By-Laws change regarding capital credits.

Page 6: Proposed By-Laws change regarding defining a voting member.

A copy of the complete current By-Laws is available online at lincolnelectric.coop/forms or in the office at 312 Osloski Road.

At the 2020 Annual Meeting of the members, our members will vote on By-Laws changes proposed by your Board of Trustees.

As a cooperative, Lincoln Electric is owned by our members. As members, you have a voice in how the cooperative is operated, largely through electing fellow members to serve your best interests on the Board of Trustees.

These trustees are tasked with crucial responsibilities. They must ensure Lincoln Electric operates in the best interest of our members while maintaining our ability to remain viable long into the future.

Financial Responsibilities

One of your Board's largest responsibilities is overseeing the financial condition of Lincoln Electric. Some parts of that equation include approving wholesale power contracts, budgets, and electric rates, as well as retiring capital credits to the membership.

However, the way the By-Laws are now written prevent your Board of Trustees from having any flexibility regarding capital credits. This can

create a financial hardship for Lincoln Electric and our members.

The By-Laws stipulate that capital credits must be retired according to a set table. That table accounts for five percent (5%) of all outstanding capital credits be retired each year.

That restriction can have a serious impact on members, especially when there is a year with unusually high or unusually low margins.

Low Margin Impacts

For example, imagine we experience a large number of damaging storms during a year. Our operations expenses increase due to restoration costs of labor, materials, and equipment. Those additional expenses bring the margins down.

However, in the above scenario, we are still required to retire five percent in capital credits every year, which impacts our equity. So, to meet lending requirements, a larger rate increase is enacted to offset the retirement of capital credits.

The end result is higher rates for all members just to

maintain the capital credit retirement table. However, if the Board was able to retire a smaller amount of capital credits, the rates could remain lower in this hypothetical situation.

High Margin Impacts

The other side of the coin is an abnormally high margin year. This is a distinct possibility when the weather is especially cold because it effects both the electric and propane revenues.

During a high margin year, the total member equity raises. Retiring only five percent of that equity in capital credits means that Lincoln Electric is now holding onto more of our members' money longer than is necessary for financial stability.

Benefit More Members

Another benefit of flexibility is the opportunity to retire capital credits to more members. The By-Laws allow only for retirement on a first-in, first-out (FIFO) basis, which means the oldest margins are retired first.

Honoring those long-time members with capital credits

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Capital Credit Knowledge

What are Capital Credits?

As a cooperative, Lincoln Electric has margins instead of profits. These margins are any revenue we have in excess of our expenses each year. The margins are used as equity by Lincoln Electric before being retired (returned) to the members as capital credits.

How Do I Earn Capital Credits?

By being a member and paying your electric bill! After each year, the yearly margin is allocated (assigned) to all the members who had electric service during the year. The allocated amount for each member is based on the dollar amount they contributed during the year. For example, if you contributed one half of a percent of our total yearly revenue, you would be allocated one half a percent of our total margins for that year.

When Do I Get Paid?

The current By-Laws provide for a rotation of capital over a period of not more than twenty years on a first-in, first-out basis. So the oldest capital credits get retired first. In 2019, we retired capital credits from a portion of 2000, all of 2001, and a portion of 2002 to members or former members who were active during those years.

Capital Credit Fast Facts

◇ Since our incorporation in 1948, Lincoln Electric has retired more than \$12.5 million in capital credits to members and former members.

◇ Over the last five years, an average of over \$14,000 of capital credits went unclaimed each year. This is mostly due to former members moving without continuing to update their address with Lincoln Electric.

◇ In 2019, the Board authorized the retirement of \$480,686 in capital credits, which was approximately five (5) percent of all our outstanding capital credits.

◇ In 2019, only 30% of our active members received a capital credit check.

Thank You Lincoln Electric and Community Members



Manager's Notes
by V. Ray Ellis, Jr.

There comes a time in everyone's life when major change is inevitable. I will be retiring in January, and writing this last article is bittersweet.

I have had the privilege of working for electric coop-

eratives for almost all my adult life. Most certainly, the highlight of my nearly 35-year career has been working for all of you here in Eureka.

During my career, and especially over the last decade, the electrical industry has experienced many changes; both good and bad. When I look ahead, one thing I believe you can count on is that change is going to accelerate, and no one can say for sure what that future is going to look like.

It will be challenging, but Lincoln Electric is ready to meet those challenges for a number of reasons. I leave

knowing Lincoln Electric is in extremely good hands.

You have what I consider to be one of the best Board of Trustees in the region. They have a true concern for the community, and desire to do what is right for the membership and the cooperative.

Lincoln Electric has incredible employees that are dedicated to the cooperative and our members. They always strive to do their best, regardless of the difficulties that are unique to utilities, especially those that serve rural areas.

Most of all, Lincoln Elec-

tric has amazing members! As a group, you are engaged and foster a close relationship with your cooperative. You exemplify what is truly great about this country, and especially rural America.

Thank you for your support and trust these past nine years. It has meant more to me than I'll ever be able to express. Please continue to lend your support to Lincoln Electric during the challenges ahead. Your cooperative can only succeed with your help!

May the sun always shine on you and your families!

Ray

BUSINESS AND BOARDROOM BRIEFS

The regular meeting of the board of trustees was conducted on October 21, 2019. A quorum of trustees was present and the board took the following action:

- Approved hiring Telly Stanger as the General Manager.
- Appointed Mike Workman as the NRECA Director Election primary voting delegate and Marianne Roose as the secondary.
- Approved changes to both Policy 404 - Donations and the associated Donation Request form.
- Approved presenting proposed By-Laws changes to Article I, Section 1 "Requirements for Membership" to the membership for a vote at the 2020 Annual Meeting.
- Approved presenting proposed By-Laws changes to Article VII, Section 4 "Capital Credit Retirement" to the membership for a vote at the 2020 Annual Meeting.
- Approved changes to Policy 305 - Pay As You Go.
- Authorized employees to access Lincoln Electric's safety deposit box.
- Approved partnering with National Cooperative Bank to make their Home Energy Loan Program available to Lincoln Electric members.

FINANCIAL OVERVIEW	Year to Date 09/30/2019	Year to Date 09/30/2018
kWh Sales	85,498,629	83,827,164
Revenue	\$ 8,466,902	\$ 8,029,768
Cost of Power	\$ 3,995,707	\$ 3,915,016
Operating Expense	\$ 3,012,065	\$ 2,917,419
Margins	\$ 431,343	\$ 140,702
Number of Members	4,691	4,620
Number of Meters	6,080	5,964
Miles of Line	971	966
Total Utility Plant	\$ 32,707,793	\$ 32,472,585
Member Equity	\$ 9,676,466	\$ 9,060,652
September Average Residential Use (kWh)	790	828
September Average Residential Billing	\$102.86	\$99.72

LINCOLN ELECTRIC COOPERATIVE, INC.

CONTACT

1-406-889-3301
info@lincolnelectric.coop
www.lincolnelectric.coop
Secure Payments: 1-833-890-6258

ALWAYS REPORT OUTAGES TO:

1-406-889-3301

OFFICE

312 Osloski Road
PO BOX 628
Eureka, Montana 59917

OFFICE HOURS

Monday - Thursday
7:00 AM - 5:30 PM

BOARD OF TRUSTEES

Mike Workman
President
Wesley Loughman
Vice President
Courtney Pluid
Secretary-Treasurer
Myra Appel
Becky Evins
Joel Graves
Marianne Roose
Tina Taurman
Troy Truman
Ethel White
V. Ray Ellis, Jr.
General Manager

Lincoln Electric's Board of Trustees hold regular monthly meetings at the boardroom in the cooperative office. These are typically scheduled on the third Monday of each month at 7:00 pm. Members are encouraged to attend. If you have any items of interest, please contact the general manager prior to the meeting.

NEXT MEETING DATE:
MONDAY, DECEMBER 16, 2019



Lincoln Electric Cooperative, Inc.

A Touchstone Energy® Cooperative

HAVE A STORY SUGGESTION?

EMAIL YOUR IDEAS TO:
memberservices@lincolnelectric.coop

By-Laws

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is a good theory. But in reality, many of the members due capital credits are missing out on that benefit of being a cooperative member. Over time, people move and members leave Lincoln Electric's service area. They forget to update their address with us and never receive their capital credits. Capital credits they earned by being a cooperative member.

However, by switching to a split FIFO and last-in, first-out (LIFO) basis, more members will see that benefit. The largest negative impact of a FIFO/LIFO split is on members who have moved off the system. And that impact is only in the form of a more extended retirement schedule.

An almost neutral impact will be seen by active members who are already eligible for capital credits. They will continue to receive capital credits. Only the amount will vary slightly. Some of

those members will see a small increase and some a small decrease. The variations will depend on that member's use over the years, as well as the overall margins for the retirement years.

The largest positive impact would be on newer members. Instead of waiting around 20 years to see a capital credit retirement, they would get one within a couple of years. Not only is this a benefit to the individual members, it is a benefit to Lincoln Electric overall.

Improving Your Cooperative

When a member receives a capital credit check, they are proud to be a cooperative member. They better understand the cooperative model, and are more inclined to become involved in their cooperative. This involvement boosts the democratic nature cooperatives are built upon.

If they move, they are also more motivated to keep their address current with Lincoln Electric. This reduces

administrative time and money for unclaimed capital credits, especially in regards to canceling and re-issuing checks.

It also allows Lincoln Electric to reduce bad debt write-offs and collections. If a member leaves while owing us money, that amount is sent to collections, where it may or may not be paid. Eventually, when that former member is due capital credits, the money is applied to their outstanding debt before being retired to the former member.

With the existing FIFO system, we have to absorb that debt for years. By moving to a FIFO/LIFO split, the debt can begin to be resolved in a more timely manner.

Individual Examples Available

If you are interested in seeing the proposed change's impact on your capital credit retirement, please call 406-889-3301, stop by the office at 312

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Article VII. Section 4. Capital Credit Retirement

Current By-Law with proposed deletions shown in red

In the event of dissolution of the Cooperative, after all outstanding indebtedness of the Cooperative shall have been paid, outstanding capital credits shall be retired without priority on a pro rata basis before any payments are made on account of property rights of members. If at any time prior to dissolution, the Board of Trustees shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to the patrons' accounts may be retired in full or in part. **Any such retirements of capital shall be made in order of priority according to the year in which the capital was furnished and credited, the capital first received by the Cooperative being first retired.** In no event, however, may any such capital be retired unless, after the proposed retirement, the capital of the Cooperative shall equal at least fifteen per centum (15%) of the total assets of the Cooperative.

The Board of Trustees of the Cooperative shall establish a general retirement program for capital credits earned and allocated. The retirement shall be designated to provide a rotation of capital over a period not more than twenty (20) years and the Board of Trustees shall have the right to determine the method basis, priority and order of retirement according to the table established; provided that after an order is once established, it shall not be changed without the approval of the members by a vote at a meeting of the members.

The Board of Trustees shall have the power to provide for the special retirement of all capital credited to a deceased person, a person permanently leaving the area in which the Cooperative operates, or a bankrupt or dissolved corporation. Such capital credits may be retired in advance of the regular time such capital would be retired under these By-Laws, provided that such advance retirement shall be requested in writing by a duly authorized representative of the parties seeking such early retirement. Any special retirement of capital credits shall only be made when such retirement will not impair the financial condition of the Cooperative. Any retirement of capital credits shall be subject to any restriction imposed against such retirement by the Cooperative Finance Corporation.

The Board shall establish rates for products and services to provide a sufficient cash flow for the general retirement program herein established.

Article VII. Section 4.

Capital Credit Retirement

Proposed By-Law with additions shown in green

In the event of dissolution of the Cooperative, after all outstanding indebtedness of the Cooperative shall have been paid, outstanding capital credits shall be retired without priority on a pro rata basis before any payments are made on account of property rights of members. If at any time prior to dissolution, the Board of Trustees shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to the patrons' accounts may be retired in full or in part. In no event, however, may any such capital be retired unless, after the proposed retirement, the capital of the Cooperative shall equal at least fifteen per centum (15%) of the total assets of the Cooperative.

The Cooperative shall retire capital credits in the manner, method, timing, and amount as approved and at the discretion of the Board of Trustees.

The Board of Trustees shall have the power to provide for the special retirement of all capital credited to a deceased person, a person permanently leaving the area in which the Cooperative operates, or a bankrupt or dissolved corporation. Such capital credits may be retired in advance of the regular time such capital would be retired under these By-Laws, provided that such advance retirement shall be requested in writing by a duly authorized representative of the parties seeking such early retirement. Any special retirement of capital credits shall only be made when such retirement will not impair the financial condition of the Cooperative. Any retirement of capital credits shall be subject to any restriction imposed against such retirement by the Cooperative Finance Corporation.

The Board shall establish rates for products and services to provide a sufficient cash flow for the general retirement program herein established.

Article I. Section 1. Requirements for Membership
Current By-Law with proposed deletions shown in red

Any natural person, firm, association, corporation, limited liability company, business, trust, partnership, Federal agency, state or political subdivision or agency thereof, or any body politic, or foreign government may **become** a member of Lincoln Electric Cooperative, Inc. (hereinafter called the "Cooperative") by:

- a) **Filing a written application for membership therein;**
- b) **Agreeing** to comply with the Articles of Incorporation of the Cooperative, these By-Laws and any rules or policies adopted by the Board of Trustees.
- c) **Agreeing** to provide the Cooperative, free of charge, an easement for a distribution line required to provide service to other members or new applicants, provided that such line shall be built so that it shall not materially interfere with the normal use of the land by the owner.

No applicant shall become a member unless:

- a) **The power lines of the Cooperative have been connected to the applicant's service or they have agreed to accept other products or services from the Cooperative.**
- b) **The applicant has been accepted for membership by the Board of Trustees or the members.**

No member may hold more than one membership in the Cooperative and no membership in the Cooperative shall be transferable.

At each meeting of the members, all applications received more than ninety (90) days prior to such meeting, and which have not been accepted by the Board of Trustees, shall be submitted by the Secretary to such meeting, and, subject to the compliance by the applicant with the requirements herein set forth, such applications, or any of them, may be accepted by a vote of the members. The Secretary shall give each such applicant at least ten (10) days notice of the date of the members meeting to which the applicant's application will be submitted and such applicant shall be entitled to be present and heard at the meeting.

By-Laws

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 Osloki Road, or email member-services@lincolnelectric.coop. We would be happy to perform a comparison of your actual 2019 capital credit retirement to a projected retirement with a LIFO/FIFO split.

Defining Membership

The second proposed change is to more clearly define what constitutes a Lincoln Electric voting member. A Montana electric cooperative was recently taken to court over this issue. A law firm rallied a group of the cooperative's former members to sue in an attempt to liquidate the cooperative for the member equity.

After a costly legal battle, the cooperative won. But it alerted cooperatives to shore up their By-Laws. The manner in which Lincoln Electric's are currently written provide some gray area.

Although our By-Laws clearly

state how one becomes a member, they never definitively define when a member ceases to be a member with voting privileges.

This omission could make us susceptible to a similar lawsuit. Former members could attempt to assert they are still eligible to vote. In the event they won that right in court, they could vote to dissolve Lincoln Electric.

By updating the By-Laws with language that allows for no margin of interpretation, we are helping to secure the cooperative's viability for our community, members, and future members.

More information

If you have any questions about the proposed changes, please feel free to contact us. Your Board of Trustees will be hosting community meetings to discuss these proposals in February. Please read future issues of your *Rural Montana* or like us on Facebook for more details on these events.

Article I. Section 1. Requirements for Membership
Proposed By-Law with additions shown in green

Any natural person, firm, association, corporation, limited liability company, business, trust, partnership, Federal agency, state or political subdivision or agency thereof, or any body politic, or foreign government may **be** a member of the Lincoln Electric Cooperative, Inc. (hereinafter called the "Cooperative") **if they meet ALL the following requirements:**

- a) **Submit a completed and signed application for Cooperative membership.**
- b) **Agree** to comply with the Articles of Incorporation of the Cooperative, these By-Laws and any rules or policies adopted by the Board of Trustees.

c) **Agree** to provide the Cooperative, free of charge, an easement for a distribution line required to provide service to other members or new applicants, provided that such line shall be built so that it shall not materially interfere with the normal use of the land by the owner.

d) **Accepted for membership by the Board of Trustees or the members.**

e) **Receiving electric service from the Cooperative.**

No member may hold more than one membership in the Cooperative and no membership in the Cooperative shall be transferable.

At each meeting of the members, all applications received more than ninety (90) days prior to such meeting, and which have not been accepted by the Board of Trustees, shall be submitted by the Secretary to such meeting, and, subject to the compliance by the applicant with the requirements herein set forth, such applications, or any of them, may be accepted by a vote of the members. The Secretary shall give each such applicant at least ten (10) days notice of the date of the members meeting to which the applicant's application will be submitted and such applicant shall be entitled to be present and heard at the meeting.

Article I. Section 5.

Termination of Membership

Current By-Law with proposed additions shown in green

Any member may withdraw from membership upon compliance with such uniform terms as the Board of Trustees may prescribe. The Board of Trustees may, by the affirmative vote of not less than two-thirds of all trustees, expel any member who shall have refused or failed to comply with any of the provisions of the Articles of Incorporation, By-Laws, rules or policies adopted by the Board of Trustees, but only if such member shall have been given written notice by the Secretary of the Cooperative that such refusal or failure makes the member liable to expulsion and such refusal or failure shall have continued for at least ten (10) days after such notice was given. Any expelled member may be reinstated by vote of the Board of Trustees or by vote of the members at any annual or special meeting.

Upon withdrawal, death, cessation of existence or expulsion of a member, the membership of such member shall thereupon terminate. **Membership is terminated when a member ceases to receive electric service from the Cooperative.** Termination of membership in any manner shall not release a member or a member's estate from any debts due the Cooperative.