Risk Management Report

Meeting Wednesday July 12,2017
Attending: Committee – Judith Gregory, Frank Willett, Bill Pascoe, Dick Nolan, David Peterson, Arleen Boyd; Board – Julie Lindgren, Roxie Melton; Staff – Angie Jennings, Brad Prophet, Jon Houghland and Jim Webb (phone).
Participants/presenters (by phone): Denver Schlaeppi, RUS; Andy Glover, CoBank; Eric Anderson, NRUCFC.

The primary agenda topic was an examination of the Rural Utility Service Cushion of Credit program, which allows cooperatives to create an account at RUS that may be used to make debt payments to RUS. By law the account pays 5% annual interest. The interest payments are deposited in the Cushion of Credit for use in debt payment. Because current interest rates are lower than 5% the co-op could borrow money to deposit in the Cushion of Credit and receive interest on the deposit that exceeding the interest required for payment of the loan.

RUS representative Denver Schlaeppi outlined RUS programs and answered questions about the Cushion of Credit, which he described as an advance loan payment account available to all RUS borrowers for payment of RUS and FFB loans. There was agreement among committee members that further information on some other RUS programs would be useful in the future, particularly the Energy Efficiency and Conservation Program and the Rural Energy Savings Program that can provide co-ops financing to offer members for energy efficiency and weatherization opportunities.

Responding to questions about the timing for getting a loan to finance a cushion of credit Eric Anderson from CFC said that if the BEC Power Vision commitment is used a loan likely could be confirmed within a week. CoBank representative Andy Glover estimated that a commitment could be in place within two weeks. Loans from both were below the 5% guaranteed for the deposit with RUS. Glover and Anderson both had run numbers for two-year, five-year and ten-year loans for BEC. Jim Webb, Jon Hoagland and Brad Prophet intend to confirm interest rates from CFC and CoBank and prepare a spreadsheet comparing their rates for various amounts in each timeframe before the BEC Board meeting on July 25.

The committee suggested talking with the BEC auditor to confirm assumptions about the impact of creating the credit cushion on BEC financial ratios and BEC ability to borrow for other purposes going forward. Jim Webb and Jon Houghland noted that borrowing the money to finance the RUS deposit would generate additional money to pay RUS debt and the advance payment account would offset the amount of the loan to finance the account. Jim will talk with Summers, McNea before the board meeting.

Committee members noted that Janet Yellen, Chair of the Board of Governors of the Federal Reserve System, has reported ongoing consideration of an interest rate increase that could impact the rate for a BEC loan. The committee also noted the importance of being certain that financing the cushion would not have a negative impact on the planned borrowing to finance approximately $1.9 million for new meters as projected in the forecast plan.

Expected information from the spreadsheet comparison of CFC and CoBank options: alternative times and rates for loans; other loan terms; total interest paid and total interest gained for each loan scenario; impact of loan on financial ratios; impact on future borrowing;

The meeting adjourned at 5:05 P.M.

Following the meeting the committee chair raised the question with management and counsel regarding the BEC Bylaw requirement to notice members of loans exceeding two years. In a conference call including BEC president, committee chair and general manager Counsel Larry Martin advised that the conservative, safe, approach is to read the bylaw literally and provide notice before securing a loan exceeding two years. Even with the Power Vision commitment a new loan document with specific terms is required. After discussion the group suggested considering a two-year loan, which requires no notice, and announcing the loan along with notice that the board intends to evaluate adding to the term (and possible amount) if all financial indicators are positive. The benefits to this approach include time to fully involve members and time for the new manager to be involved in a decision about increasing a Cushion of Credit.