

Commonly asked questions about electric cooperatives

What is the rural electrification program?

It refers to a partnership effort of the federal government and electric systems serving the rural areas of America. The federal government provided loans on favorable terms through the Rural Utilities Service (RUS). Farmers and other rural residents provided the initiative and leadership in organizing, constructing and operating their own rural electric systems to provide service for themselves, neighbors & future consumers in rural areas.

What is RUS?

RUS is the designation for the Rural Utilities Service. This is a government agency, a part of the U.S. Department of Agriculture, with offices in Washington, D.C. It administers the Rural Electrification and Telephone Revolving Fund, insures loans from the fund and guarantees loans from other private sources. Loans are made to cooperatives, public power districts, municipal electric systems, and power companies which are willing to use the funds to provide initial and continuing electric services on an area-wide basis to unserved farms, residences, businesses & industrial plants, schools, churches and other establishments in rural areas.

How were REA and RUS created?

President Franklin D. Roosevelt created the Rural Electrification Administration by executive order on May 11, 1935. The agency was given continuing status and its authority and responsibilities were clarified in the Rural Electrification Act, passed by Congress the following year. On October 13, 1994, President Clinton signed HR 4217, the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994. This Act abolished the old REA program and created a restructured, modernized and efficient loan program for rural utilities, including electric, telephone & water services.

Why was REA and the RE loan program necessary?

Only 10% of the farms in this country had electric service by 1935 when REA was created. Most rural areas had been by-passed by electric companies which were unable or unwilling to build lines into territory that was economically poor or thinly populated. Where farmers did get electricity, they generally were required to pay more per kWh.

Why is it difficult to set rates for electric service in rural areas?

Building an electric system is a very expensive undertaking; it ties up large amounts of capital. The typical electric co-op serves only 6.59 consumers with approximately \$8,558 gross revenue per mile of line. Privately owned utilities (or IOUs) average more than 5 times as many consumers and 7 times as much revenue per mile of line. Municipally owned utilities (munis) average 7 times as many consumers & 9 times as much revenue per mile of line.

Have the members of rural electric cooperatives helped cut the costs of providing electric service?

Yes, the members of many co-ops have helped to lower costs by donating right-of-ways for lines. In the early years, they helped in the membership sign-up drives & in the clearing of rights-of-way. The directors draw no salaries. In some areas, consumers read their meters to save operating costs.

How is a co-op non-profit? How does this work?

Any margins left over after expenses – including taxes – are paid, belong to the patrons and not to the cooperative enterprise. In practice, this can get pretty complicated. The electric co-op must use money left over at the end of the fiscal year to repay RUS loans, set up reserves and provide operating cash to carry on current operations. In most kinds of co-ops where members furnish the initial capital, net margins can be paid back to patrons in cash. In electric co-ops, the margins are credited to members in special capital credit accounts for repayment at a future date. What this amounts to is a transfer of the co-op's indebtedness from RUS and other lenders to members. The accumulations of capital credits represent the members' equity in the business. As the financial position of the co-op permits, part of these capital credits are paid back to members.

Do cooperatives pay taxes?

Yes. In most states, electric co-ops pay taxes on the same basis as other businesses. In a few states, taxes are levied on a basis which recognizes that most of their plant produces comparatively low revenue because lines extend into thinly populated areas. RUS electric borrowers pay a total of over \$450 million per year in state and local taxes. Since co-ops are non-profit, and income tax is a tax on profit, co-ops pay no income tax. However, they do pay a 2% gross receipts tax to the state. This is distributed to local schools relative to the number of lines in each district. This amounted to nearly \$20 million in 2002.

Commonly asked questions...(continued from page 15)

How does a co-op differ from other businesses?

In a co-op, membership and joint ownership are open to all who want to use its services. Generally, there is a small membership fee paid initially to the co-op by a member. To insure democratic control, each member has one vote, regardless of his investment or use of electricity. A co-op's non-profit status is generally spelled out in the bylaws and sometimes by the state law under which it is incorporated.

How much RUS money is borrowed from the federal government each year?

During FY 2003, the Federal Financing Bank (FFB) had Loan Authority in excess of \$4,000,000,000 guaranteed by RUS. Cumulative advances on RUS loans as of December 31, 2002, were \$32 billion. Borrowers were approved for more than \$2.8 billion in REA loan advances in 2002-2003 alone. Of the active borrowers with loans at the end of FY 2003, distribution co-ops total 74 percent and another 5.1 percent operated generation and transmission facilities. The balance of loans went to public power districts, municipal electric systems, and some went to small commercial power companies.

If the number of farms is declining, how can there be an increase in the number of rural customers?

A lot goes on in rural areas besides farming! Rural consumers include farms, non-farm rural residences, processing plants, motels, churches, commercial businesses, and a wide variety of others, such as home based businesses, that help build local economies. The oil and gas industry has also made a tremendous impact in rural areas of states like Oklahoma. While it is true that the number of farms in the United States has declined severely in the last 3 decades, people who left farms and rural areas are now returning due to a better quality of life – away from the high crime, high stress worries of city life. This trend began to reverse itself in the 1980s, and continued with the latest Census conducted in 2000. The population shift has been uneven. Cities expand and suburbs spill over into the countryside. New enterprises move into rural areas that have good education, health, recreational facilities, employment opportunities and quality electric service. This means new job opportunities for rural people and draws urban dwellers to the country as well.

What have rural electric cooperatives accomplished in developing rural areas?

Dependable, affordable electric service is vital to rural area development and electric co-ops are bringing low-cost power to their service areas. These electric systems also work with other community leaders and take the lead to encourage new industries and better community facilities for rural areas. This development is essential, since it provides additional jobs, larger payrolls, and better living conditions which will make small towns and the countryside more attractive as places to live and work. Since 1961, rural electric and telephone systems have joined in sponsoring over 15,000 projects that have created over 2.5 million new jobs in rural America.

What about the future? Can rural electric co-ops get along without RUS financing?

RUS is still a vital player in ensuring the growth and development of rural America. To take care of normal load growth and to meet rapid changes in technology, co-ops need millions of dollars in new capital each year. To supplement loans from RUS, the co-ops organized a private supplemental financing institution in 1969. The National Rural Utilities Cooperative Finance Corporation (CFC) made its first loan in 1971. CFC borrows in the commercial money market in order to furnish this supplemental financing. In its 32 year history, CFC has made loan commitments totaling more than \$21.5 billion.

Do consumer-members of RUS borrower systems have more influence in the operations of their electric utility than customers of investor-owned systems?

Consumer-members exert considerable influence. They elect their own board of directors at their annual membership meetings; they take part in policy decisions involving such things as rates, community redevelopment, and conservation of electric energy; and can encourage legislative support on behalf of the entire membership. Members are actively encouraged to take part in the political process, electing responsible directors and exercising voting rights at all co-op elections.