

NEW FACES AT MLEC

Welcome Lincoln Messner, Accounting & Finance Manager

Lincoln Messner joined MLEC as the new Accounting & Finance Manager this July. He has spent the last 11 years in the accounting/finance world and has been a great asset as the newest member of the Management Team.

Lincoln's past work experience and accreditations are extremely valuable as the cooperative plans for MLEC Fiber expansions, updating financial forecasts for the future, and executing MLEC's work plan.

Lincoln is originally from Winthrop, MN, a small southern town in the middle of corn country. He graduated from the University of Minnesota with a degree in Accounting. He and his wife have one daughter named Ivy who is 2 ½ years old and are currently expecting their second child. Some of Lincoln's hobbies include muzzle loading, snowmobiling, fishing, and water skiing.



Questions or concerns?
MLEC's Board of Directors represent you!

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This newsletter is the voice of your tax and interest paying RURAL ELECTRIC COOPERATIVE, an organization which was formed to supply you with low-cost, dependable electricity when other sources failed to do so.

Managing Editor: Kassie Peterson,
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NEW HEADQUARTERS UPDATE

On September 25, MLEC closed on a piece of property near the intersection of Highways 169 and 18. The purchase of the land was contingent on the cooperative receiving a conditional use permit which was approved on September 21.

Now that the purchase of the land has been finalized, the MLEC board of directors and management team will begin analyzing the feasibility of building a new headquarters at a new location. However, if this proves to be financially out of reach or if a better piece of land becomes available, MLEC will put the land up for sale and consider other options.

MLEC leadership does not take this project lightly. A new headquarters building has been a reoccurring topic in the board room for the past 10 years. The board is weighing all potential options including building a new headquarters at

the current headquarters location. The membership is at the forefront of all discussions and decisions. With the help of an engineer, MLEC will soon know if a new headquarters building is a feasible option. Also, acting now could dramatically decrease the price tag on a new building. With interest rates at an ultimate low and MLEC borrowing just above 1%, the cooperative is financially healthy and could build a new headquarters building without affecting members' rates.

The current headquarters building has served the membership and employees well for the past 60 years; it is now time to look forward to the next 60 years. Focusing on longevity and taking advantage of these financial opportunities will set MLEC up for success.

IT'S ALL IN THE NUMBERS

Dear Member:

While we still have two full months left, 2020 is shaping up to be a great year...financially...for MLEC. We were a little concerned early on with the late winter snowstorm, mild temperatures resulting in low kWh sales early on, continued storms with overtime all summer, and a worldwide pandemic.

With all that looming, your MLEC Management Team immediately set a course for correction. We applied for and received funds under the Federal Paycheck Protection Program. During the height of the pandemic and the governor's stay-at-home order, MLEC did not layoff or furlough any MLEC employees. We interrupted the right-of-way maintenance program (our single biggest controllable cost) to stabilize our cash reserves. We temporarily eliminated all offsite meetings, keeping employees safe and COVID-19 out of the MLEC offices.

Through the third quarter, we have a favorable net margin of \$1.1 million, and plan to end the year in this same direction. In November, we will go to the board with a recommendation to make one of our largest capital credit retirements in recent history to you, our member. This is due to the prudent decisions of your MLEC Management Team.

In the electric cooperative industry, a common benchmark used is the Key Ratio Trend Analysis (KRTA). The KRTA is a set of over 140 metrics by which over 900 electric cooperatives compare themselves to other cooperatives in the nation, the state, or to other cooperatives within their generation and transmission cooperative. The data becomes very useful when making business decisions.

A good example is found when looking at a headquarters plant value per member. For instance, if the number is really high, it could mean that a cooperative just built a new building, the building was very expensive, or the building was not very expensive, but they don't have a lot of members so the cost is overly inflated. If the number is low, it could mean that a cooperative has an old building, they have not put much into updating the building, or they have a large number of members and the cost of the building is underinflated. That is why it is important to look at the whole picture and really analyze the numbers.

MLEC recently received the 2020 KRTA and we found two interesting numbers about the value of our headquarters plant. The first number was that the value of plant per consumer is \$129.88, meaning the total value of our headquarters plant divided by the number of consumers equals \$129.88 per consumer. Nationally, that number is \$264.68, and in the State of Minnesota that number is \$242.75. MLEC has about half the value in plant per consumer than the national average. When looking at that number per employee, the number translates consistently. MLEC has approximately \$44,000 in the value of plant per employee. That number is \$82,000 nationally, and \$83,000 in the State of Minnesota.

For a mid-sized electric cooperative with an average number of employees, this is telling us a couple of things. First, it is telling us that MLEC is not over-charging our members for the cost of our headquarters plant. Second, it is telling us that IF we were going to look at that number, we would need to start questioning why it is so extraordinarily low. The answer is something we have already come up with internally - our headquarters plant has had very few upgrades, it is old and out-of-date, our membership has grown significantly since it



Sarah Cron
CEO

was built, our employee count has grown significantly since it was built, and most cooperatives were formed in the 1930's (just like MLEC) and are in their 2nd or 3rd headquarters building right now.

Last week, our Accounting and Finance Manager, Lincoln Messner, completed MLEC's Ten-Year Financial Forecast, and I was very pleased with the results. We have talked a lot about interest rates being at a historic low. This reduction from 4 and 5% down to 1 and 2% had a big impact on our 2020 financials, MLEC's long-term debt picture, and our long-range planning.

It is important to note that a forecast is made from assumptions of the future. As soon as those assumptions change, the forecast changes. Our current Ten-Year Financial Forecast accounted for a potential headquarters building at a projected cost of \$13 million (NOTE: we have not yet met with a contractor or builder - this is a forecast); multiple broadband grants and expansion of MLEC's fiber business unit; and, some cost of business increases. It also projected flat and declining power costs due to the closure of Coal Creek Station in North Dakota. With all these assumptions, we do not see a rate increase for MLEC members through 2027.

Keep in mind that this is a forecast. We do not know if we will build a new building. We are having studies done to determine all options available to us. Options include remodeling our current 60-year-old facility, building on our existing site, or building on another site. We do not know if we will get grants or do the projected fiber expansions we are assuming. If we do not get grants, we will do smaller fiber expansions into unserved parts of our service territory. The important thing is that your MLEC Management Team is looking to the future. We are looking for the best interest of the MLEC membership and the communities we serve, and want to do it with the lowest possible impact on your pocketbook.

Please continue to read your Outlet newsletter for updates on the future of MLEC. We will give you information on our progress as it becomes available. Stay well everyone.