
Frequently Asked Questions: Equity Capital Credits

Equity Capital Credit Glossary

- **Allocation:** A member's portion of margins at the end of a year allocated in proportion to the amount they paid for electricity in that year. Allocation notices are mailed to St. Croix Electric Cooperative members each July, noting the prior year's allocation.
- **Dairyland Power Cooperative (DPC):** With headquarters in La Crosse, Wis., Dairyland provides wholesale electricity to 25 member distribution cooperatives and 17 municipal utilities, including St. Croix Electric Cooperative (a distribution cooperative). A Touchstone Energy® Cooperative, DPC's service area encompasses 62 counties in four states. DPC's generation resources include coal, natural gas, hydro, wind, biomass, landfill gas, animal waste and solar.
- **Equity Capital Credits** (*also referred to as Capital Credits, Patronage Credits*): A member's portion of margins for a given year while a member of a cooperative. St. Croix Electric Cooperative retires capital credits on a 20-year rotating cycle. If financial conditions are favorable, the Board of Directors may also approve partial retirement of capital credits for active members from three years prior.
- **Margin(s):** Excess revenue once the year's expenses and claims have been fulfilled.
- **Non-Power Supplier Margins:** Margins resulting from St. Croix Electric operations. These margins do not include the allocation of earnings from Dairyland Power Cooperative (DPC), SCEC's power supplier.
- **Retire(d), Retirement:** The actual payment of capital credits to members. The first retirement of capital credits to St. Croix Electric members was in 1963 – 24 years after the lines were energized. SCEC has been able to retire capital credits annually since 1963 for a total of more than \$16 million returned to members.

What are capital credits?

An electric cooperative operates on an "at-cost" basis by annually **allocating margins** to each member in proportion to the amount of electricity they paid for during the year. As financial conditions permit, these allocated amounts – known as **equity capital credits** (capital credits) – are **retired**. St. Croix Electric Cooperative (SCEC) is currently on a 20-year retirement cycle. The Co-op may offer a partial retirement of capital credits to active members from three years prior, as financial conditions allow. As a **Dairyland Power Cooperative (DPC)** member, SCEC also passes along DPC equity capital credits to members, dollar-for-dollar, in the same year they are retired by DPC.

Capital credits represent the most significant source of capital for St. Croix Electric Cooperative. Since a cooperative's members are also customers, capital credits reflect each member's ownership in, and contribution of capital to, the cooperative. This differs from dividends investor-owned utilities (IOUs) pay shareholders, who may or may not be customers of the utility.

History

When St. Croix Electric Cooperative was incorporated in 1937, each prospective member paid a \$5 membership fee. With less than \$1,000 of cash equity, members borrowed \$200,000 to begin construction of the St. Croix Electric Cooperative system. Poles were set, transformers hung, wires strung and, on May 24, 1939, the meters began to turn. In 1963, the first capital credit retirement was paid to members in the amount of \$50,354 for the years 1939-46. Since then, more than \$16 million in capital credits have been paid back to current and former members. Holding members' capital credits up to 20 years ensures the on-going ownership cost to build and maintain the electric distribution system is a shared financial responsibility of all current and past members.

Where does the money come from?

Member-owned, not-for-profit electric co-ops set rates to generate enough money to pay operating costs, make payments on loans and provide an emergency reserve. Because there is no pool of investor money available, the Cooperative must be able to fund capital improvements, maintenance and operations, while nurturing a healthy business. Prior to their retirement, capital credits support these needs and maintain an appropriate amount of equity for the Cooperative.

How are margins allocated?

Margins are annually allocated to members, based on the price a member paid for electricity from the Cooperative the previous year. Each year, SCEC's Board of Directors evaluates the balance of the allocated capital credits account with a goal to retire a total of 6 percent of the prior year's cumulative balance.

The Board will first evaluate and approve the retirement of allocations from 20 years prior (e.g. retiring the 1996 allocations in 2016). If that total does not reach the 6 percent retirement goal and the Cooperative is financially able, the Directors may approve a partial retirement of the allocated capital credits from three years prior (2013 in 2016). This partial retirement option was first approved by the Board of Directors in 1996 and only active SCEC members are eligible to receive the partial retirement if they were members during that year.

How often will I receive an allocation notice?

Active members receive an allocation notice, annually, in July. An allocation notice outlines two numbers: 1) Your allocated portion of the previous year's margins and 2) How much you can expect to receive when they are fully retired. If the Board approves a partial allocation three years later, that partial allocation will be deducted from your total allocation amount and you (the member) will receive the balance when the remaining allocation is fully retired.

How do capital credit retirements work?

Active members who purchased electricity in the year(s) the capital credits are being retired will receive a bill credit either the end of October or first part of November, if their portion of the retirement is less than \$100. If the capital credit retirement is more than \$100, the member will receive a check for that amount toward the end of October.

Inactive or former members who no longer purchase electricity from SCEC (but who purchased electricity during the years being retired) will receive a check in late October/early November.

Are capital credits retired every year?

Each year, the SCEC Board of Directors makes a decision by September whether to retire capital credits based on the financial health of the Cooperative. During some years, the Co-op may experience high growth in the number of new accounts or severe storms may result in the need to spend additional funds to repair lines. These and other events may increase costs and decrease member equity, causing the Board not to retire capital credits. For this reason, SCEC's ability to retire capital credits reflects the Cooperative's strength and financial stability. The Board, alone, decides whether to retire capital credits.

Will I lose my capital credits if there is a year the Cooperative is not able to approve a retirement?

No. All capital credits allocated for every year members have been served by SCEC are maintained until such time as the Board retires them. SCEC has annually retired capital credits since 1963.

What do I need to do to receive my capital credits when they are retired?

Make sure St. Croix Electric Cooperative always has your current mailing address on-file; a retirement check will be mailed to you if you are no longer a member. Current members whose retirement is less than \$100 will receive their retirement in the form of a bill credit.

Do Xcel Energy, We Energies or other local utilities retire capital credits?

No. Within the electric industry, equity capital credits only exist at not-for-profit electric cooperatives owned by their members (Xcel and WE are investor-owned utilities [IOUs]). SCEC would be unable to secure loans for capital improvements without the capital backing and equity the annual margins provide. SCEC returns the allocated margins to members in the form of capital credits. IOUs do not annually return profit to customers, hence their "for-profit" status.

I am a current member expecting a \$70 capital credit retirement this year. Can the Cooperative send me a check?

Capital credit retirements under \$100 are applied to an active member's mid-October or early-November electric bill. Former members or current members (\$100+ retirement) will receive a check in the mail, provided SCEC has their current mailing address.

Which years were retired in October 2016?

1996 and a portion of 2013.

Can I use all/part of my capital credit allocation to pay my electric bill?

No. Allocated capital credits may not be used to pay current bills. Your electric bill is due now, whereas your allocated capital credits will be retired in the future.

Why was my neighbor's allocation/retirement larger than mine?

St. Croix Electric allocates, then retires, margins on a proportional basis, which means your neighbor used and paid for more electricity from the Cooperative over the course of the year than you did.

What if I move?

If you no longer have electric service from SCEC, it is important the Cooperative has your current address, so future retirements can be mailed to you. If you purchased electricity during the years being retired, you are entitled to a capital credit retirement, even if you move out of the SCEC service area.

The Cooperative also works with local St. Croix County newspapers to publish a list of unclaimed capital credit retirements. Anyone with information on the whereabouts of former members on the list should contact the Cooperative at 715-796-7000.

The account is in my spouse's/partner's name, but I pay the bill. Will I receive the capital credits for the account?

Capital credits are paid out (retired) to the individual(s) named on the account membership. Check your next electric bill: If the bill is addressed only to your spouse/partner, the capital credits will be paid out to your spouse/partner. If your spouse/partner is willing to assign, or transfer, capital credits into your name, there is a form at the Co-op, which requires the member's (your spouse/partner) notarized signature. Please contact St. Croix Electric Cooperative for this form (715-796-7000).

I was never married to my partner and we split up. Who is entitled to the capital credits from when we were together?

Joint membership (e.g., the electric bills were addressed to both you and your partner): The capital credits can be split with an Assignment of Jointly Held Capital Credits form. For a joint membership, if the capital credits are to be split 50/50, only one signature is required (does not have to be notarized). If the split is anything other than 50/50, both signatures are required with notarization.

Individual membership: The capital credits will be paid to the name on the membership. It is possible for the member to transfer capital credits into the partner's name not on the membership, but the member would have to contact St. Croix Electric Cooperative (715-796-7000) to begin the process.

We are going through a divorce. How will capital credit retirements be affected?

See the answer to the question above regarding non-married partners sharing a dwelling. In the case of divorce, it should be noted: If the capital credits allocations are specifically mentioned in court documents/divorce decree, these documents would dictate how the capital credits are split/paid out.

I have been a member for 25 years and recently moved from one account in SCEC's service area to another. Will that affect my capital credit retirements?

No. Records of equity capital credit allocations are kept based on member number, which you will always have assigned to your name – even if you move out of St. Croix Electric's service area. You will receive capital credit retirements allocated to you at your first residence when they are retired. Once capital credit allocations at your new residence are retired, you will receive those.

I moved in to my current residence two years ago, but my account has been on St. Croix Electric Cooperative lines for more than 20 years. Why didn't I receive a capital credit retirement?

Capital credits allocated to a member will remain in that member's name, even if they move outside of the Cooperative's service territory. In 2016, equity capital credit retirements were made to all current and former members who purchased electricity from SCEC in 1996 and to current members who purchased electricity from SCEC in 2013.

Do I have to pay taxes on capital credits I receive?

For a non-business electric account, the capital credit retirement is non-taxable income. Capital credits are usually tax-exempt unless electric bills are claimed on tax forms as an expense (e.g., for businesses). It is always best to consult with your accountant or tax preparer to make sure. Members will receive a 1099 tax form from SCEC if their capital credit retirement for the year was \$600 or more.

How long do members have to claim past capital credit retirements? What happens to unclaimed funds?

As long as the Cooperative has up-to-date contact information for current and former members, they will receive their allocated capital credits when they are retired. Additionally, when allocation notices are mailed, SCEC publishes a list of "missing" former members in local St. Croix County newspapers (e.g., members who have not updated their contact information with the Cooperative). Unclaimed capital credit retirements are held for four years. If, after that time, the former member or their family/heirs have not stepped forward to claim the money, Wisconsin state law allows cooperatives to use this money for educational purposes. It is transferred to SCEC's account with the Federated Youth Foundation (www.CooperativeNetwork.coop).

The Federated Youth Foundation is a 501(c)(3) non-profit organization set up to manage charitable accounts for organizations. Members may also elect to have their capital credit retirements donated directly to SCEC's FYF fund. The Cooperative's Continuing Education Scholarship program is funded by unclaimed or donated capital credits and has provided more than \$250,000 in scholarships to SCEC dependents since 1981. More information about donating capital credits to FYF is available by calling the Cooperative office (715-796-7000).

We/I would like to convert our/my membership into a trust.

To change a membership into a trust, an Assignment of Capital Credits form is required to transfer the capital credits. The member(s) must also submit a new application for service completed in the name of the Trust.

One important factor members should consider before changing their membership into the name of a trust: Once a membership is converted to a Trust, the option of a lump sum payment of all capital credits at present day value for surviving heirs/trustees is lost*. When the primary trustee or executor of the Trust dies, the surviving heirs/trustees must name a new executor/trustee. All capital credits – including capital credits allocated prior to the formation of the Trust – will be retired in the name of the Trust (not an individual).

**Per SCEC bylaws, a "present day value" lump-sum payment option exists only upon the death of a member who was a natural person. A Trust is not considered a natural person.*

My spouse died. What – if anything – do I need to do to make sure I receive future capital credit retirements?

Joint membership: If one of the individuals listed on the membership dies, the Co-op requests a copy of the death certificate and that individual's name will be removed from the account. The membership is then "converted" to an individual membership.

Individual membership: The surviving spouse or heirs of the deceased have two options under current policies:

- a. The *book value* of the capital credits can be transferred into the name of the surviving spouse/heir(s) and paid out each year as they mature.
- b. The surviving spouse/heir(s) may request a *present day value* payout. In this case, all capital credits of the deceased member will be paid out on a present day value basis (capital credits will be discounted since they are not fully mature).

Surviving spouses/heirs should contact St. Croix Electric Cooperative for an estate package, which will include an application for electric service (if there is an active electric account), a schedule showing the *book value* and *present day value* of allocated capital credits, and an application for redemption of the capital credits. A copy of the death certificate will be required for either option.

My parent(s) was/were members, but recently died. Do their capital credits get passed on to me/my siblings?

Yes, but family members or a representative of the estate must request an estate packet from St. Croix Electric Cooperative by calling the office at 715-796-7000.

"With any endeavor in life, to have success, you have to own it." - Charles Schwab

Rev. 10/2016