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Examining the Governance Crisis of Rural Electric Cooperatives: Following the Money!

The Rural Power Project
A Research & Advocacy Report
www.ruralpowerproject.org

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Examining the Governance Crisis of Rural Electric Cooperatives

By WADE RATHKE

INTRODUCTION

We must always resist cynicism when we are trying to understand the potential – and the problems – of something as important to progressive society and the American experience as a cooperative, and that is particularly true of the important legacy of rural electric cooperatives. As we have reviewed earlier (www.socialpolicy.org and www.acorninternational.org), rural electric cooperatives have a proud history of delivering the “last mile” of electricity as one of the most popular, most successful, and most enduring of programs dating to the New Deal. More than 75 years later, most of these cooperative still exist and continue in many ways, shapes, and forms to provide electric power to millions in rural America.

Yet, we are left to wonder if they have lost their mission and purpose?

In a study done by the Rural Power Project (www.ruralpowerproject.org) in conjunction with Labor Neighbor Research and Training Center (www.laborneighbor.org) and ACORN International (www.acorninternational.org) that focused on the 313 electric cooperatives in the twelve Southern states we were shocked to find the deterioration of democracy and what seemed an almost aggressive avoidance of diversity, neither of which reflected the service areas. As we stated,

“The Project found that of the 3051 supposedly democratically elected board members, 2754 are men or 90.3% while 297 members are women or 9.7%. This is spite of the fact that the gender distribution in the South is 48.9% men and 51.1% women. Examining participation by African-Americans in the governing process of the cooperatives where information was available and verifiable, we found that 1946 of the members were white or 95.3% throughout the South, while 90 or 4.4% of the members were black. Of the more than 2000 governing positions for which we had information, only six (6) were Hispanic or 0.3% of the total. These figures compare to the fact that throughout the twelve (12) southern states, only 69.23% are white, while 22.32% are black and 10.19% identify as Hispanic.”

In the report, “Democracy Lost, Racism Found,” we were puzzled. We knew that there was a problem, but what had gone so terribly wrong in the rural electric cooperative movement to find itself in this situation? Furthermore, why had this happen? What led to this corruption of power? What led to this impunity among neighbors and members in the same community that would seek to consolidate positions and therefore lock out greater diversity and participation?

In unraveling the mystery of why southern rural electric cooperatives would be “frozen in the fifties” on some many issues like race, gender, climate change, expanded services, and more, we followed the first rule of corporate research, even though these were cooperatives: follow the money. The IRS 990s that the cooperatives are required to file annually in order to protect their tax exemption provide a wealth of information. Perhaps there were clues in these reports. Working with our volunteer research team we devised an expanded spreadsheet to look at a number of factors, but particularly the relationships between the sales and assets of the cooperatives and the amounts that they paid their directors and managers. Rural electric cooperatives by an act of Congress may be tax exempt, but they are anything but charitable enterprises.

By crunching all of the numbers from all available 990s (more than a dozen have neglected to file and one left blank the manager’s pay rate) we were able to look at the average revenue for cooperatives by state as well as the average reported compensation for officers of the board and for the board of directors. These board positions are filled by election of the membership and must be members, so with 99.99% certainty, these are “volunteer” positions filled by rural electric cooperative members elected to provide governance. We also looked at the average managers’ pay and for good measure where it was available (the information was not available in Kentucky and Virginia) we also at what the 990s reported as the size of cooperative employment.

Table 1 presents this data.

Table 1: Snapshot of Coops Highlighted in Diversity and Democracy Report

State	Company	Sales	Assets	High Officer	High Director	Manager
Alabama	Baldwin	\$158,360,246	\$284,120,116	\$59,540	\$53,300	\$487,652
	Black Warrior	\$46,422,291	\$76,150,971	\$6,300	\$6,300	\$144,890
	Central Alabama	\$99,855,813	\$223,456,629	\$14,200	\$12,600	\$287,524
	Power South	\$682,617,062	\$1,827,325,328	\$18,250	\$17,753	\$859,335
Arkansas	Ashley-Chicot	\$9,380,501	\$35,191,963	\$10,468	\$10,618	\$101,268
	Mississippi County	\$157,197,782	\$96,650,853	\$21,653	\$22,917	\$177,463
	South Central	\$24,758,168	\$64,420,109	\$10,000	\$10,400	\$158,020
	Southwest Arkansas	\$67,041,205	\$181,545,210	\$25,001	\$23,201	\$334,538
Florida	Central Florida	\$64,405,387	\$121,877,600	\$27,146	\$36,752	\$220,175
	Gulf Coast	\$48,656,556	\$153,580,985	\$13,304	\$11,259	\$220,382
	Okefenoke	\$70,689,914	\$149,944,813	\$8,536	\$18,219	\$177,703
	Suwanee	\$58,517,331	\$114,694,207	\$15,000	\$13,750	\$144,318
	Talquin	\$123,712,479	\$248,731,265	\$26,650	\$24,900	\$285,638
Georgia	Cobb	\$416,271,078	\$914,245,365	\$62,200	\$59,500	\$581,274
	Jefferson	\$72,702,458	\$153,682,702	\$22,345	\$21,333	\$174,727
	Mitchell	\$61,547,327	\$146,278,848	\$25,562	\$24,731	\$202,198
Kentucky	Clark	\$54,570,892	\$117,185,604	\$26,827	\$25,827	\$189,634
	East Kentucky Power	\$964,660,110	\$3,403,556,299	\$42,300	\$27,600	\$690,566
	Jackson Energy	\$113,439,147	\$248,519,156	\$18,750	\$19,950	\$195,537
	Pennyville	\$130,711,093	\$209,453,478	\$19,895	\$20,981	\$257,406
Louisiana	Claiborne	\$45,872,162	\$98,896,344	\$30,177	\$33,161	\$166,691
	DEMCO	\$212,984,305	\$581,252,559	\$28,906	\$31,031	\$299,954
	Washington-St. Tamr	\$88,384,404	\$198,243,966	\$21,282	\$20,537	\$218,308
Mississippi	4-County	\$117,256,356	\$224,713,177	\$28,458	\$29,982	\$202,083
	Delta	\$60,372,813	\$112,645,105	\$118,000	\$6,500	\$192,798
	Southern Pine	\$222,725,660	\$406,163,379	\$56,573	\$55,157	\$438,095
North Carolina	Edgecombe-Martin	\$28,218,693	\$61,209,526	\$16,000	\$12,200	\$247,483
	Halifax	\$25,551,928	\$58,999,048	\$10,498	\$11,048	\$194,436
	PeeDee	\$47,806,188	\$97,283,117	\$11,119	\$7,035	\$174,071
	Roanoke	\$37,097,263	\$84,134,754	\$26,729	\$17,908	\$212,415
South Carolina	Central Electric	\$1,254,791,457	\$350,307,979	\$34,573	\$147,190	\$515,441
	Marlboro	\$74,830,694	\$54,342,713	\$39,456	\$41,534	\$327,733
	Mid-Carolina	\$131,384,378	\$195,787,668	\$41,687	\$20,770	\$256,707
	Santee	\$139,980,526	\$216,416,489	\$50,915	\$42,310	\$293,491
	York	\$103,940,539	\$150,235,004	\$27,471	\$28,495	\$208,370
Tennessee	Gibson	Didn't File 990				
	Middle Tennessee	\$549,925,882	\$549,778,020	\$17,036	\$16,248	\$226,318
	Sourthwest Tenn	\$109,272,538	\$150,483,690	\$17,068	\$18,236	\$170,305
Texas	Bartlett	\$21,740,736	\$58,463,525	\$23,733	\$7,604	\$142,423
	Bowie Cass	\$80,366,327	\$175,591,353	\$30,423	\$28,023	\$137,418
	Brazos	\$943,894,900	\$2,959,150,321	\$52,765	\$36,637	\$350,142
	Pedernales	\$633,445,529	\$1,414,715,776	\$39,000	\$39,000	\$520,827
	Rio Grande	\$45,147,717	\$117,455,033	\$165,628	\$10,800	\$101,435
	Virginia	\$84,632,618	\$173,286,053	\$23,800	\$24,200	\$285,727
Virginia	Mechleburg	\$70,456,125	\$169,834,530	\$11,954	\$12,088	\$305,326
	Northern Virginia	\$433,093,291	\$830,218,525	\$31,104	\$37,539	\$578,944
	Prince George	\$35,380,970	\$66,536,106	\$20,150	\$25,400	\$270,975

Table 2: Per Capita State Income Compared To Average Directors And Managers Pay

State	Average Revenue	Average Officer	Average Director	Average Manager	Average Size	Per Capita Income
Alabama	\$83,028,192	\$16,798	\$15,594	\$223,165	160	\$23,606
Arkansas	\$65,227,500	\$27,078	\$26,307	\$218,582	124	\$22,882
Florida	\$133,743,095	\$19,911	\$19,666	\$253,784	143	\$26,582
Georgia	\$105,779,209	\$22,204	\$22,547	\$272,910	142	\$25,615
Kentucky	\$137,027,570	\$20,324	\$17,108	\$217,520	N/A	\$23,684
Louisiana	\$59,064,889	\$28,529	\$27,562	\$157,851	68	\$24,800
Mississippi	\$100,030,177	\$15,151	\$14,276	\$200,401	141	\$21,036
North Carolina	\$82,170,969	\$24,011	\$20,038	\$320,357	87	\$25,774
South Carolina	\$149,829,649	\$50,514	\$44,614	\$298,108	85	\$24,596
Tennessee	\$112,087,999	\$14,016	\$12,868	\$182,385	144	\$24,922
Texas	\$106,616,219	\$22,714	\$21,647	\$210,889	134	\$27,125
Virginia	\$129,716,325	\$20,550	\$21,991	\$327,365	N/A	\$34,052
Total Average	\$105,360,149	\$23,483	\$22,018	\$240,276	123	\$25,380.50

Table 3: Managers Paid Over \$350,000 Along with Gender and Race Categories

Cooperative	State	Sales	Assets	High Officer	High Director	Manager	Women	Diversity
Carteret-Craven	North Carolina	\$67,624,587	\$117,084,106	N/A	\$15,840	\$1,365,236	one	one
Sumter	Florida	\$365,150,093	\$693,332,820	\$39,502	\$36,752	\$968,498	none	none
Bluebonnett	Texas	\$203,398,585	\$447,848,834	\$42,439	\$37,516	\$919,829	one	one
Power South	Alabama	\$682,617,062	\$1,827,325,328	\$18,250	\$17,753	\$859,355	two	none
Habersham	Georgia	\$65,756,364	\$124,975,044	\$33,696	\$27,976	\$858,410	none	none
South Mississippi	Mississippi	\$917,679,312	\$2,049,952,594	\$34,400	\$24,800	\$692,641	two	none
East Kentucky Power	Kentucky	\$964,660,110	\$3,403,556,299	\$42,310	\$27,600	\$690,566	none	none
Blue Ridge	North Carolina	\$148,265,570	\$379,181,171	\$35,865	\$28,844	\$643,856	two	none
Rappahannock	Virginia	\$445,208,465	\$840,369,888	\$46,075	\$41,275	\$634,843	two	two
Cobb	Georgia	\$416,271,078	\$914,245,365	\$62,200	\$59,500	\$581,274	one	none
Northern Virginia	Virginia	\$433,093,921	\$830,218,525	\$31,104	\$37,539	\$578,944	two	none
Jackson	Georgia	\$527,699,577	\$894,395,376	\$33,498	\$32,036	\$566,859	none	none
Horry	South Carolina	\$155,935,671	\$287,549,900	\$27,679	\$37,243	\$558,740	one	one
Pedernales	Texas	\$623,445,529	\$1,414,715,776	\$39,000	\$39,000	\$520,827	four	none
Palmetto	South Carolina	\$163,743,236	\$252,172,170	\$26,970	\$29,154	\$518,785	two	three
Central Electric	South Carolina	\$1,254,791,457	\$350,307,979	\$321,573	\$147,190	\$513,441	two	two
Baldwin	Alabama	\$158,360,246	\$284,120,116	\$59,540	\$53,300	\$487,652	one	one
Coast	Mississippi	\$207,184,773	\$341,830,060	\$39,900	\$38,900	\$487,095	one	none
South River	North Carolina	\$104,717,731	\$219,413,253	\$29,197	\$4,010	\$484,655	three	one
Wake Electric	North Carolina	\$84,132,517	\$203,235,772	\$26,831	\$24,842	\$472,176	one	one
Georgia Electric	Georgia	\$13,214,724	\$6,409,676	\$6,000	\$4,500	\$464,106	five	none
Blue Ridge	South Carolina	\$141,998,931	\$274,170,842	\$43,443	\$45,961	\$458,341	none	none
United Cooperative	Texas	\$171,922,496	\$377,476,584	\$34,786	\$37,702	\$455,236	one	none
Guadalupe Valley	Texas	\$197,322,511	\$445,099,977	\$38,795	\$32,117	\$451,021	one	none
Sawnee	Georgia	\$346,701,929	\$562,310,871	\$36,533	\$35,676	\$441,193	one	none
Southern Pine	Mississippi	\$223,725,660	\$406,163,879	\$56,573	\$55,157	\$438,095	one	none
Greystone	Georgia	\$270,764,359	\$481,751,174	\$25,984	\$25,194	\$429,914	three	one
Walton	Georgia	\$246,829,229	\$446,130,320	\$21,650	\$20,415	\$426,720	one	none
First Electric	Arkansas	\$184,052,422	\$465,632,068	\$42,254	\$39,144	\$401,902	none	none
Laurens	South Carolina	\$128,485,033	\$201,133,418	\$41,209	\$35,759	\$401,274	none	one
Shenandoah	Virginia	\$214,565,116	\$404,312,022	\$18,031	\$16,870	\$398,779	two	none
Clay	Florida	\$378,395,924	\$612,442,854	\$17,400	\$15,950	\$397,550	three	none
Middle Tennessee	Tennessee	\$549,925,882	\$549,778,020	\$17,036	\$16,248	\$395,860	two	none
Singing River	Mississippi	\$170,455,257	\$350,008,024	\$23,774	\$24,274	\$390,254	one	none
Southside	Virginia	\$109,925,288	\$297,901,250	\$24,000	\$24,000	\$389,581	one	one
Piedmont	North Carolina	\$66,053,934	\$166,031,798	\$29,570	\$27,665	\$386,923	none	none
CoServ	Texas	\$430,679,536	\$1,014,720,702	\$41,504	\$42,229	\$373,980	one	none
Tri-County	Texas	\$152,116,432	\$507,242,824	\$25,361	\$24,592	\$373,548	one	none

It is common knowledge that many of these rural electric cooperatives work in some of the poorest areas of the country: the Rio Grande Valley, the Mississippi River Delta, and Appalachia. The lowest average directors' pay is in Tennessee at almost \$13,000 per member annually, while the highest is in South Carolina where the average is \$44,614 per director annually. The average overall directors' pay is \$22,018.

Is that the answer to the zealous refusal of cooperative boards to diversity and avoid more democratic and transparent practice? Perhaps. Directors' fees in the \$20,000 range are hardly a king's ransom, but in rural areas of the South that level of additional income would be more than welcome, dear to hold onto, and sorely missed if lost. The per capita income for these states (Table 2) is not much less than the amount of the average director pay, and in three of the states (South Carolina, Arkansas, and Louisiana) the directors' pay exceeds the per capita income average for the state.

What Does the Data Show?

A casual observer might look at all of this data, and wonder what the rhyme and reason behind it is, and in many ways we have to agree.

Some relatively small cooperatives pay high fees to directors. One or two large cooperatives that are paying their professional staff extremely high salaries to manage the cooperatives, pay their directors relatively little compared to the average.

At the same time there seems to be more than a coincidental pattern that aligns the highest paid 15% of managers, those making from \$350,000 per year to over \$1 million a year, with some of the highest director payments for cooperatives in the South. A question lingers from the data without a comprehensive or conclusive answer whether or not managers with relatively exorbitant paychecks have encouraged their own inurement by also making sure directors share in this wealth?

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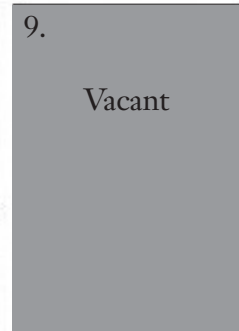
As we say, there is no absolute and final answer, but the patterns are unsettling and disturbing. When measured against the per capita income for these states, many directors of cooperatives are besting average income in their states simply by participating as elected representatives in the board meetings of their cooperatives. All studies establish that income in rural areas similar to the service area of the cooperatives is less than in urban areas and some of these cooperatives are in some of the poorest counties in the country. Supplemental income from these cooperative directors' fees whether \$5000 or \$10,000 per year at the low end or over \$50,000 annually at the high end would not seem trivial to many people living in the rural South or for that matter anywhere in the country. It also seems reasonable to believe, given income patterns in the rural South, that a director would not only notice the loss, but also might acutely miss such additional income for attending some small number of meetings of the cooperative during the year. Most of these meetings are not public, though some do open their doors for non-personnel business, but the agendas and minutes for most of the meetings that are available, seem to indicate that much of the business is routine.

There seems to be no standard or recommended benchmarks that establish the real value of such service and therefore the level of compensation for directors tasked with stewarding the delivery of electric power and attendant services to their neighbors. Looking state by state at the data, compensation almost seems "relative," and perhaps derived around the coffee pot or watercooler when state

association directors and managers convene from time to time in a sort of "what's good for the goose is good for the gander." Of course in some cases cooperatives do not even seem to have filed 990s with the Internal Revenue Service which makes one wonder not only how they are maintaining their special tax exempt status as cooperatives, but also what in the world the directors are doing when they meet if they are not even assuring themselves that their returns are filed?

Looking at the correlation of the highest paid managers in the southern cooperatives with race and gender factors in their cooperatives makes it clear unrepresentative cooperative directors are definitely not holding managers, even the best paid managers, to any standards that would render a belief that such cooperatives will be leading – or, more accurately, catching up -- in the area of diversity and democracy, in fact quite the opposite. Referencing the earlier figure in Table 3 that includes, where available, the average size of a cooperative employment also leads to concerns that the staffing pattern in cooperatives, often the largest economic force in a rural district and certainly one of the larger employers in most of their service areas, likely is similarly unrepresentative when it comes to race and gender as well since neither managers nor directors seem to be pushing for greater geographical and demographic diversity.

In the initial report it was difficult to ignore *de facto* discrimination based on race and gender in director selection. Many directors might, and hopefully do, deny such motivations, but in examining the pay for both managers and directors, the additional self-interest incentive of compensation seems impossible to eliminate as well.



District 1: Deloria Irby – All of Cape Carteret and Cedar Point, parts of Jones and Onslow counties, including Highway 58 north to Maysville.

District 2: Ben Ball – Properties in Carteret County west of Highway 70, including co-op service territory along Hibbs Road, Roberts Road and Nine-Foot Road, and along Highway 24 from Dutch Treat Mobile Home Park, west through Gales Creek, Broad Creek and Bogue, up to the eastern limits of Cape Carteret.

District 3: Arland Bell – Cooperative service areas in Craven County, including Havelock, Highway 101 and Adams Creek Road; and Lake Road near the Carteret County - Craven County line.

District 4: William Fred Fulcher – all of Bogue Banks, including Pine Knoll Shores, Salter Path, Indian Beach and Emerald Isle.

District 5: Douglas Fulcher – Cooperative service areas on the east side of Highway 70 in and around Newport up to the Mill Pond on Mill Creek Road, and those areas in and around Wildwood and Morehead City.

District 6: J. Henry Davis – Mill Creek, Highway 101 from Harlowe to Beaufort, South River and Merrimon.

District 7: Anthony Nelson – Service areas in eastern Carteret County, including Harkers Island, Otway, Straits, Fire Tower Road, Atlantic and Cedar Island.

District 8: Thom Styron – An at-large district representative from any part of the cooperative’s service area.

District 9: Vacant – A board seat held by a minority cooperative member representing the entire cooperative service area. Irby, Ball, Bell, W. Fulcher, D. Fulcher, Davis, Nelson, Styron, Meadows.

Successful strategies of self-enrichment routinely degrade collective enterprises and democratic foundations when governance is not given appropriate attention. In this case the financial rewards push against more democracy and the necessary transitions to more completely align governance with the demographics of the cooperatives service area.

Furthermore though the lack of transparency from most cooperatives prevents being able to categorically rule out self-interest or discrimination, there are too many cases where the evidence is abundantly clear that the rules for election and voting have been tilted to favor incumbents and management slating of directors, rather than the kind of classic cooperative democracy that are enshrined in the principles that most cooperatives claim to follow. There are too many instances where proxy voting is allowed, meeting notices are inadequate, and elections are postponed or deferred in the face of competing candidacies advocating programs of reform.

The problem in closely examining the governance of cooperatives in the South is that without a rhyme or reason that explains differently, it is virtually impossible not to conclude that you can't put lipstick on a pig. The lack of transparency and shape shifting of rules seems designed

to obscure and dilute the voice and will of cooperative members by discouraging their participation in order to also decrease accountability. The only rational explanation for these practices in fact seems to lie in discrimination, anti-democracy, and financial self-interest.

Acknowledgements

This is the second report in a series on diversity and democracy in rural electric cooperatives in the South. Research for this special report was done by Courtney Foster, Tulane University, and Alexandra Randazzo, Loyola Marymount University.

This is report #2 of a series on rural electric cooperatives in the Southern states. The report #1: Democracy Lost, Discrimination Found: The Crisis in Rural Electric Cooperatives was release in May 2016 and is available on the websites of the Rural Power Project at www.ruralpowerproject.org or ACORN International www.acorninternational.org or Labor Neighbor Research & Training Center www.laborneighbor.org.