

Risk Management Committee Report

October 2016 BOARD REPORT

Risk Management Committee convened at noon September 14, 2016 and adjourned 3:00 p.m. Committee members present: Judith Gregory, Frank Willett, Bill Pascoe, David Peterson, Roxie Melton, Arleen Boyd, Board members and Dan Dutton. Telephone attendees: Wade Hirschi, Jim Webb, Larry Martin.

Jim shared the results of previous week's Fall River/Lower Valley meeting on consolidation as "more positive than expected." The LVE board voted in favor if three issues could be worked out. Jim did not know what the Fall River board had decided or whether the two co-ops would go ahead. We discussed the role Beartooth might or might not have in a consolidation. Larry Martin clarified a few issues regarding Montana requirements for merger or consolidation and noted important issues including the legal requirement that member rights guaranteed under Montana law be protected. We will need to identify those rights—like the BEC bylaw and Montana code requirement that members approve bylaw changes.

The FREC and LVE boards had not defined a potential role for BEC in a consolidation. The board members present (and committee members and Larry Martin) were in consensus that, of a few alternatives Jim suggested, going for a three-way process up front, which the other two co-ops may not want anyway, was not a good idea but holding on to the management agreement or extending it until BEC could see what the consolidated new entity looks like could be good. Jim hopes for information from our survey that will indicate whether BEC members are open to merger. There was agreement by those present that we should plan to share with members at the annual meeting what we actually know about possible consolidation.

The committee reviewed a draft seven-year merger forecast and had many questions and comments. Wade noted missing numbers that need to be added. The next risk management analysis step is to review a completed seven-year merger forecast to compare with an updated seven-year stand-alone forecast before conducting an analysis of the impact of merger savings on member rates.

The committee agreed to postpone the GDS consultant's Phase II evaluation (approved by the board) until the board knows whether the consolidation is going forward. Then we will know whether he should continue the merger process analysis we have outlined, focus the remaining work on consolidation, or postpone (or cancel) the evaluation pending further development of the consolidation scenario.

The committee agreed with Jim Webb's recommendation to hold off on Richard Peck's contract to start working with Jim on potential governance and agreement issues until the board knows whether/when/how BEC may be involved in a consolidation. Postponing the GDS Phase II analysis until the consolidation issue is clear and until the merger numbers are defined makes sense.

Bill Pascoe developed a clear outline of tasks to be included in the analysis of the merger criteria: rates, reliability, member programs and services, and governance. The committee will review the list at the next Risk Management meeting.

Attorney Larry Martin repeated previous caveats about the need for an agreement (MOU or other) specific to BEC for a consolidation recommendation and vote. To do a legally safe recommendation and member vote on merger or consolidation (bylaws, articles of incorporation, policies) counsel would need to have information regarding the proposed merger or consolidation and would need to do further research to prepare an opinion on requirements to “protect member rights” as noted in Montana code. At the very least BEC would need to inform members of differences between current and the new co-op’s bylaw and policy provisions.

Consensus of committee and board members present was a recommendation to put aside the accelerated timeframe sought by LVE to make a decision on merger recommendation by December and set a new goal when the unknowns are resolved. A consolidation recommendation would not be possible until the consolidation is defined and BEC has an opportunity to do its evaluation/analysis of the impact on BEC members.

Arleen Boyd
Risk Management Committee Chair
BEC Board