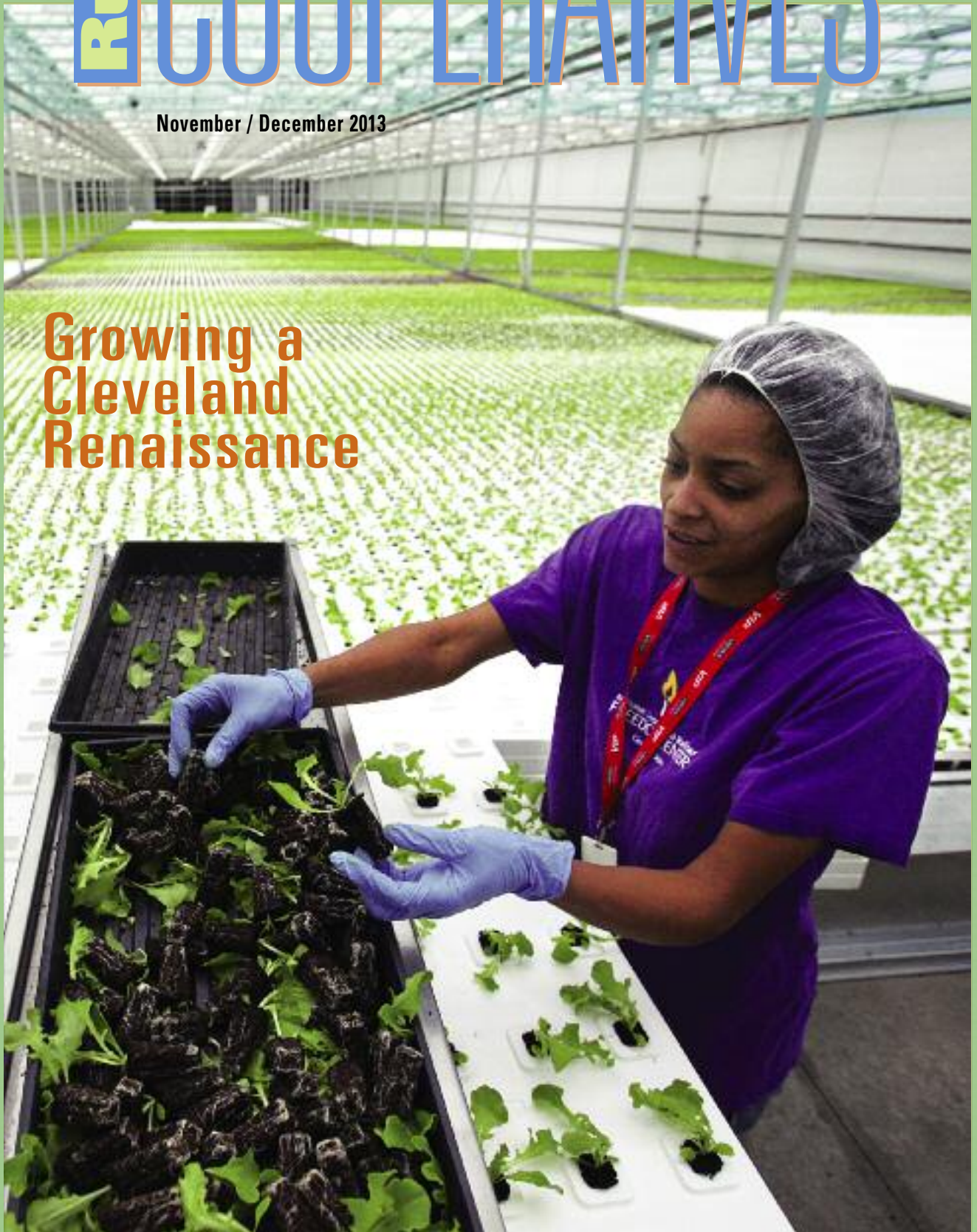


Rural COOPERATIVES

November / December 2013

Growing a Cleveland Renaissance



Commentary

Cleveland Rocks (and Grows)!



By Doug O'Brien, Acting Under Secretary
USDA Rural Development



It may not be the major tourist attraction that the Rock and Roll Hall of Fame is, but Cleveland is now also home to what is believed to be the nation's largest urban greenhouse. This 3.25-acre expanse of glass and greenery is a marvel of technology and human innovation. A number of varieties of lettuce and other leafy vegetables are being grown here hydroponically, without the use of soil. The operation is helping to turn a struggling neighborhood into a source of fresh, local food and jobs.

The workers here are not simply hourly wage earners — although hourly jobs are also a welcome addition to the economy of a neighborhood where jobs are scarce. Rather, they are set to become (after working for a year) worker-owners of Green City Growers (GCG), a worker cooperative.

GCG is part of Cleveland's Evergreen family of worker co-ops, which also includes Evergreen Energy Solutions, an installer of solar heating systems, and the Evergreen Cooperative Laundry (featured in the Nov.-Dec. 2010 issue of *Rural Cooperatives*, available on the USDA website), which uses environmentally friendly technology to clean the laundry for many of Cleveland's largest institutions (such as hospitals).

While each of the three sister co-ops is involved in entirely different lines of work, one thing they all have in common is that they are owned by their workers. The longer a person works for the co-op, the more his or her equity stake in the business increases. In an inner-city neighborhood where economic opportunity is scarce, these co-ops offer a way up for their member-workers.

When a person evolves from “employee” to “worker-owner” of a business, the desire and motivation to see it succeed increases exponentially. The fact that GCG is helping to meet the growing public demand for local produce makes the co-op's story even more compelling.

During a ceremony that marked the opening of the greenhouse earlier this year, Cleveland Mayor Frank Jackson called the operation an essential part of the city's “Sustainable Cleveland 2019” effort, the goal of which is to create enough new industries and long-term jobs by the year 2019 to make the city economy truly sustainable. Production of local food

is a key element in the plan, Jackson noted.

GCG is far from the only urban farming operation that is creating jobs and expanding the supply fresh, local produce for city dwellers.

In Milwaukee, Growing Power is an urban farming project that markets produce from its own 40-acre farm just west of the city. Its director, Will Allen, is a former professional basketball player whose parents were sharecroppers in South Carolina. His daughter, Erika, now runs an offshoot of Growing Power in Chicago. Detroit, which has been battered by the loss of much of its industry during the past 20 years, is also home to successful urban farming projects that grow hope, along with food, in blighted neighborhoods.

Community wealth building is the goal of the Evergreen co-ops. The aim is to help “communities and individuals increase asset ownership, anchor jobs locally, strengthen the municipal tax base, prevent financial resources from ‘leaking out’ of the area and ensure local economic stability,” the co-op says.

The Evergreen cooperative strategy was designed to “cause an economic breakthrough in Cleveland. Rather than a trickle-down strategy, it focuses on economic inclusion and building a local economy from the ground up,” according to the co-op's mission statement. “Rather than offering public subsidies to induce corporations to bring what are often low-wage jobs into the city,” it continues, “the Evergreen strategy is catalyzing new businesses that are owned by their employees; rather than concentrate on workforce training for employment opportunities that are largely unavailable to low-skill and low-income workers, the Evergreen Initiative first creates the jobs, and then recruits and trains local residents to take them.”

Federal Reserve Board Governor Sarah Bloom Raskin has noted that the Evergreen Cooperatives model “is effective because it capitalizes on local production and because it forges a local business-development strategy that effectively meets many of the anchor institutions' own needs.”

So why does USDA Rural Development, which administers financial programs specifically targeted to rural America, have a stake in efforts such as GCG? Because it is also home to USDA's Cooperative Programs office, the only unit of the federal government specifically charged with helping to “grow” the co-op business model; we strive to

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Volume 80, Number 6
November/December 2013

Rural Cooperatives (1088-8845) is published bimonthly by USDA Rural Development, 1400 Independence Ave. SW, Stop 0705, Washington, DC. 20250-0705.

The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of the Department. Periodicals postage paid at Washington, DC. and additional mailing offices. Copies may be obtained from the Superintendent of Documents, Government Printing Office, Washington, DC, 20402, at \$23 per year. Postmaster: send address change to: Rural Cooperatives, USDA/RBS, Stop 3255, Wash., DC 20250-3255.

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This publication was printed with vegetable oil-based ink.



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ON THE COVER: William MacKey (left) and Natopia Scott transplant 12-day-old artisan lettuce seedlings into their new "hydroponic home" inside the Green City Growers cooperative greenhouse. The co-op, which is owned and operated by its workers, is creating good jobs in an area of Cleveland that needs an economic lift. Photo by Lisa DeJong/Cleveland Plain Dealer



Going Local in Big Sky Country

Western Montana Growers Co-op to notch first \$1 million sales year



The Western Montana Growers Cooperative, making a delivery, is helping to meet rising demand for local food. The co-op has been in business for 10 years, and now has 38 farmer-members. Photo by Neva Hassanein. Bitterroot apples are one of the co-op's more popular fruit offerings. Photo by Laura Ginsburg

By Laura Ginsburg, Project Coordinator for Co-op Development
Mission Mountain Food Enterprise Center



Montana has always been known for beef, wheat and being “Big Sky Country.” As the local food movement sweeps the nation, Montana is gaining a reputation for those who like to know where their food comes from. And in the western part of the state, the Western Montana Growers Cooperative (WMGC) is leading the pack for local food aggregation, processing, and distribution. The WMGC is celebrating its tenth year in 2013, with 38 farmer-members, and nearly \$1 million in sales in 2012.

In the fall semester of 2012, participants (led by Dr. Neva Hassanein) in a graduate-level course from the University of Montana Environmental Studies program completed a case study of the WMGC. The case study was funded by Mission Mountain Food Enterprise Center, the USDA-funded cooperative development division of Lake County Community Development Corporation, based out of Ronan, Mont.

Mission Mountain was an integral player in the formation of the co-op and has been instrumental in providing cooperative education and development and food handling guidance and serves as the processing facility for WMGC's value-added products.

Three teams, each with own focus

The students divided into three teams, each focusing on either: (1) staff, partnerships and cooperative structure; (2) member-owners; or (3) wholesale and community supported agriculture (CSA) customers. Each group decided on a sampling platform and used methods such as interviews, surveys, document review and participant observation to gather data for the report. All participants, regardless of what group they were part of, were asked their thoughts on the role of the WMGC in the regional food system.

As local foods continue to gain traction, particularly with the movement into wholesale markets such as schools and institutions, it is important to understand how a cooperatively owned business contributes to food system development. It is hoped that this case study will help inform those interested in developing cooperatively owned food hub businesses while also contributing to the academic literature regarding food systems.

Financially, the WMGC is expecting sales to top \$1 million in 2013. The previous year saw the co-op return a profit for the first time, and annual growth for the previous six years has averaged 30 percent. In the span of 10 years, WMGC has grown from nine members (who supplied only fruits and vegetables) to 36 members selling a "complete grocery basket," including dairy and grains.

Similarly, the CSA program has grown to more than 160 members since its inception in 2008 and now includes product-specific shares from local producers, including bread, coffee, cheese and beef. The recent financial success has been bolstered by grants for specific projects and generous support

from financial donors who want to see the co-op succeed.

Co-op staff and producers interviewed

The student team focusing on the WMGC staff and partners interviewed all of the staff and three key partners. The co-op employs a manager, assistant manager (a position now occupied by two people: one who manages finances, the other manages operations), a warehouse coordinator/primary driver, a CSA coordinator and two or three additional warehouse packers and drivers.

The team that studied the grower-members chose to interview the top 15 highest selling farmers in the co-op, who account for more than 88 percent of annual sales. These farmers sell a wide variety of products, ranging from fruits and vegetables to meat and dairy products. Nearly two-thirds of those interviewed reported that less than half of their total sales go through the co-op.

Finally, the buyer team focused on wholesale customers (health food and grocery stores), emerging institutional buyers and CSA customers. Health food and grocery stores comprise 73 percent of the co-op's total sales. The top 10 wholesale buyers, all four institutions and all of the CSA members were targeted for interviews or surveys.

From staff perspectives, the aggregation and distribution capabilities of the WMGC have allowed smaller farmers to reach more markets through wholesale distribution and with processed products. Staff members frequently mentioned the pride they felt in literally representing the fruits of the farmers' labor. They also said that being able to deliver high-quality, fresh and locally grown items was a key element of their work.

Partners were equally enthusiastic about the quality of the produce and the ability of the WMGC to get local goods into more regional and statewide markets. Newly formed relationships have led to WMGC items being sold across Montana through two multi-state distribution companies. Strong ties to Mission Mountain Food Enterprise Center have led to increased processing for fresh and frozen products, most of which go to area schools and institutions.

Co-op yields variety of benefits

Grower-members discussed a variety of co-op membership benefits, focusing on either finances or community. In

interviews, 13 of the 15 farmers saw the distribution of goods as being the primary benefit of the co-op, while seven farmers viewed the benefits derived from aggregation of products as being the primary advantage of the co-op. Being part of a community of individuals doing similar work was the highest community benefit, mentioned by 10 farmers.

Farmers echoed the thoughts of staff when they spoke about the role of the WMGC in the western Montana food system. Specifically highlighted was the function as aggregator, distributor and marketer of local foods, with many growers saying that the

farms. Institutional and CSA customers reported similar thoughts, and they appreciated the product quality, the relationships they had with WMGC staff, and the ability to support multiple farmers with ease.

Co-op expands producers' market reach

As food systems develop in parts of the country that have lost the infrastructure to handle produce from small and mid-scale farmers, the role of a business such as WMGC is to fill that void. Because the co-op picks up, aggregates, markets,

*Through its many functions,
the co-op has increased the reach
and potential of each individual farm.*

WMGC was “the face” of local food.

Smaller scale farmers noted that the aggregation service of the co-op allows them to remain competitive. Growers also say the WMGC plays a critical role in rebuilding a more viable and sustainable food system and serves as an example for other cooperatives.

The success of the co-op noted by staff and growers comes to fruition in the opinions of wholesale and CSA customers. Buyers consider the WMGC a highly valued supplier, with nine of ten interviewees saying the freshness of the products was superior to similar products from other distributors.

Another high point of membership is the direct contact and relationships the buyers have with co-op staff, including managers and drivers. Buyers appreciate that the co-op stands behind its products and guarantees customer satisfaction.

With so many small-scale growers offering products during Montana’s short growing season, buyers also appreciated the simplicity of making only one phone call to access goods from multiple



processes and sells produce from multiple farmers to many consumers, it has increased the reach and potential of each individual farm.

The cooperative structure has allowed farmers to share in the risk of re-developing a localized food system — a process that does not happen quickly and requires the buy-in from many different people along the value chain. The cooperative structure may not always be the easiest to operate, due to factors such as competition, often low financial returns and a struggle to maintain member participation. But the Western Montana Growers Cooperative has shown that — with perseverance and dedication — a stronger, better local food system can emerge.

As the WMGC celebrates its first 10 years, it is clear that Montana consumers are embracing a model that supports their regional farm families and will keep small agriculture viable into the future. ■



USDA funds advanced biofuels projects



Agriculture Secretary Tom Vilsack in October 2013 announced the availability of \$181 million to develop commercial-scale biorefineries or retrofit existing facilities with appropriate technology to develop advanced biofuels. Farmer and utility cooperatives are among those eligible to apply for the funds.

“This financing will expand the

number of commercial biorefineries in operation in the U.S. that are producing advanced biofuels from non-food sources,” Vilsack said. “USDA’s Biorefinery Assistance Program is yet another way USDA is helping to carry out the Obama Administration’s ‘all-of-the-above’ energy strategy to develop every possible source of American-made energy. But the benefits go beyond reducing our dependence on foreign oil. These biorefineries are also creating

lasting job opportunities in rural America and are boosting the rural economy as well.”

The Biorefinery Assistance Program was created through the 2008 Farm Bill and is administered by USDA Rural Development. It provides loan guarantees to viable commercial-scale facilities to develop new and emerging technologies for advanced biofuels. In addition to farmer and electric co-ops, other eligible entities include: Indian

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The Green Crude Farm in Columbus, N.M., (top) is the world’s first commercial, demonstration algae-to-energy facility. The project was awarded \$104 million in federal funding, including a loan guarantee under USDA’s Biorefinery Assistance Program. Photo courtesy Sapphire Energy Inc. The Freemont Community Digester in Freemont, Mich., (bottom) is the largest commercial-scale anaerobic digester in the United States. USDA supported its development with a \$12.8 million loan guarantee. Photo courtesy Novi Energy



Overseas co-op formations help reduce poverty, fight hunger

By Paul Hazen



***Editor's note:** Hazen is executive director of the Overseas Cooperative Development Council in Washington, D.C. Previously, he was CEO of the Washington-based National Cooperative Business Association. Hazen speaks frequently at national and international forums on the role of cooperatives in community and economic development. In 2001, he was named CEO Communicator of the Year by the Cooperative Communicators Association.*



Cooperatives are ubiquitous in rural America. More than 2,000 farm co-ops generate \$235 billion in annual sales. Nine hundred rural electric co-ops provide power to 42 million people. And several hundred more co-ops are bringing 21st century telecommunications technologies to rural America.



Providing mosquito netting is one way U.S. cooperatives are helping to protect people in Africa from the ravages of mosquito-borne malaria. Here, a nurse in Uganda helps to properly hang the netting. Photo courtesy Overseas Cooperative Development Council (OCDC). In Zambia (below), volunteers from Land O' Lakes (an OCDC member) are helping farmers improve their livestock management practices. Photo courtesy Land O' Lakes



Less well known is what U.S. cooperatives are doing around the globe to feed the hungry, reduce poverty and foster democracy. U.S. cooperative organizations have been involved in economic development in poor countries for more than 60 years. Their work grew out of the conviction that, having helped millions in this country, cooperatives can be adapted to help low-income people everywhere.

In the “trade-not-aid” tradition, farmers in developing countries are taught simple ways to increase production and how to work together to increase output and income. As part of a group, they can negotiate higher prices for products, lower costs for inputs and better pursue opportunities in the marketplace. Rural electric and communications cooperatives bring electricity and telecommunications services to underserved areas of poor countries, while credit unions make loans to subsistence farmers and other small entrepreneurs, allowing them to grow their businesses.

Rather than simply offering humanitarian aid, cooperative development creates stable, self-sufficient businesses that improve lives. Increased agricultural production and

income helps create wealth while it reduces hunger, malnutrition and poverty. It also offers impoverished farmers prospects that they could not achieve individually, such as helping them to secure land rights.

Co-ops teach basics of democracy

By working within a cooperative, poor people in underdeveloped countries also learn democratic principles, including consensus decision-making and electing leaders through a one-member, one-vote process. Becoming a member of a cooperative is the first exposure many people in the developing world have to the concepts of democratic governance and local control.

Over the years, international

cooperative development has produced some impressive results. In the 1940s and 1950s, cooperatives helped create India's White Revolution, making that country the world's largest milk producer. They also played a key role in helping Europe recover from World War II, triggering the creation of CARE, the international relief and development organization.

More recently, cooperatives brought electric service to 85 million people in the Philippines and Bangladesh and opened lucrative global coffee markets to thousands of small producers in Africa, Indonesia and Central America.

Organizing cooperatives is also one of the most cost-effective methods of achieving development goals. For a relatively small investment, cooperatives can transform whole communities by

stimulating economic growth and by providing social supports.

In the fledgling Southeast Asian country of East Timor, for example, coffee cooperatives — assisted by the National Cooperative Business Association's CLUSA International Program — realized their success depended on the health of their members. So they set up a network of clinics that filled a major gap in the country's health services.

Obama: goal is self sufficiency

President Barack Obama captured the essence of cooperative development in a speech prior to a 2012 G-8 Summit. "The whole purpose of development is to create the conditions where assistance is no longer needed," Obama said, "where people have the

dignity and the pride of being self-sufficient...."

Nine of the most active U.S. organizations in international cooperative development work together as the Overseas Cooperative Development Council (OCDC). They are: ACDI-VOCA, Communications Cooperative International, Cooperative Resources International, Global Communities, HealthPartners, Land O'Lakes, NCBA CLUSA, National Rural Electric Cooperative Association International (NRECA International) and the World Council of Credit Unions.

These nine organizations currently are involved in 200 development projects in 70 countries. The projects are funded through a variety of sources, with the Foreign Agricultural Service of

U.S. co-ops are helping farmers in Madagascar improve their rice yields.



the U.S. Department of Agriculture being a leading source of funds via the Food for Progress program.

Examples of OCDC members' work around the globe include:

- In Ethiopia, ACIDI/VOCA is using cooperatives to boost the incomes of

thousands of small farmers. Strategies include building feed- and dairy-processing plants and teaching farmers competitive bidding.

- In Mongolia, Global Communities is lowering farmers' costs and raising productivity by teaching cooperative

approaches. These efforts have led to joint production of crops, shared labor and lower cost access to veterinary services.

- In Tanzania and Zambia, Land O'Lakes is using cooperatives to

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Co-ops poised to help address world food challenge



In Sri Lanka, dairy production is improving thanks to help from U.S. cooperatives. Photo courtesy Land O' Lakes

Cooperative development could play a major role in meeting one of the looming global challenges of the 21st Century. The growing world population — projected to reach 9 billion by 2050 — will require at least a 70 percent increase in food production at a time when farmland expansion has largely been exhausted, productivity growth has leveled off and crops are increasingly diverted for energy and other non-food purposes.

Bottom-up approach needed

A growing list of national and international leaders

favors a shift to a more bottom-up approach to development — one that improves lives through wealth building, rather than handouts. At the core of this approach is the cooperative business model, which can help reduce hunger by both increasing agricultural production and increasing income among small farmers.

The financial challenges of 2008-2009 has fueled an additional wave of interest in cooperatives. Historically, in any major economic downturn, people turn to cooperation to solve economic and social challenges. The United Nations declared 2012 the International Year of Cooperatives, and the U.N. Food and Agriculture Organization made cooperatives the theme of World Food Day 2012.

There is also movement in the direction of cooperatives in the Obama Administration's \$3.5 billion Feed the Future initiative. The first grant under this initiative went to an NCBA CLUSA

project that is reducing malnutrition and hunger among Senegal's rural poor. Feed the Future is designed to help countries grow enough food to feed their own people.

The gap between what we need to feed the world's poor and the food the global market can produce is massive and growing. Over six decades, cooperative business has led the fight against malnutrition and starvation in developing countries. With increased attention from policy makers and increased investment from donor agencies, cooperatives are poised to play a major role in closing the global food gap. ■



Growing *a Cleveland Renaissance*

Urban farming co-op boosts struggling neighborhood with local foods, new jobs

By **Stephen A. Thompson**, Assistant Editor



Constance Suggs tends organic lettuce, grown in nutrient-rich water, without soil. Living Lettuce (below) is the co-op's brand of premium, organic lettuce. Photos by Jerry Mann, courtesy Green City Growers (CGC).



Demand for local food is strong in Ohio, an agricultural state that produces more than 2,000

kinds of crops and is home to numerous farmers markets, food hubs and produce stands. But in Cleveland, the local food movement means more than fresh, healthy produce. Local food production is at the heart of a grassroots effort to reclaim portions of the city suffering from urban decay and unemployment.

Spearheading the effort in one struggling Cleveland neighborhood is a workers' cooperative that has built

a large-scale greenhouse that is producing healthy food and creating jobs in an area that desperately needs both. Built on 11 acres, the Green City Growers greenhouse officially opened last Feb. 25. It has four acres under roof, with 3.25 acres of growing area.

Green City Growers employs 25 people who produce high-quality, hydroponically grown leafy vegetables. Major crops are Bibb lettuce, green leaf lettuce, gourmet lettuces and basil, which are sold to restaurants and retailers year-round.

City slammed by real estate bust

The real-estate bust of several years ago hit Cleveland hard. The city, already suffering economic difficulties due to the closure of many factories, saw a rash of foreclosures that resulted in thousands of vacant houses and plummeting property values. The U.S. Census Bureau estimates that more than 8,000 houses have been demolished in the greater Cleveland metropolitan area.

Left behind after each demolition are bare foundations and vacant lots that are soon filled with weeds and trash. These attract vermin and further damage neighborhood property values and quality of life.

The Green City Growers' greenhouse operation represents an investment of about \$17 million. It is currently producing Bibb lettuce, green leaf lettuce, gourmet lettuces and basil. Photos courtesy Green City Growers



*“You have to **build** a coalition of people who believe in the project and can bring different skills to it.”*

Residents are fighting the decay with a growing “community gardening” movement, in which neighbors are turning abandoned properties into small greenhouses and vegetable plots. Some participants are even working to overhaul local ordinances that effectively prohibit residents from raising chickens.

The idea for a worker-owned greenhouse was first floated by community leader Alayne Reitland. A member of the board of the Cleveland Foundation, an organization dedicated to the improvement of local communities, Reitland took the idea to the leadership of Evergreen Cooperatives. Evergreen is a project that promotes worker-owned businesses as a means of furthering economic development. Evergreen already had successfully started a worker-owned laundry and a workers’ cooperative that installs solar panels (see Nov.-Dec. 2012 *Rural Cooperatives*).

Cleveland Foundation funds feasibility study

Evergreen decided to forge ahead

with a feasibility study for an urban farming project, funded by a grant from the Cleveland Foundation. To conduct the study, the co-op hired Mary Donnell, a business consultant with many years of experience in the fresh produce industry. Completed in 2010, the study found that the concept had promise.

The idea simmered for a year, says Donnell. “When they decided to go forward with the idea, they asked me to be the entrepreneur to build it out. I moved to Cleveland from Bowling Green, Ohio, in the spring of 2010.”

The neighborhood chosen for the project certainly needs help. It has a 57-percent poverty rate and a median income of less than \$18,500. Even though vacant land is plentiful in the neighborhood, finding a suitable building site was not easy.

“We needed a big site, and it needed to be assembled,” says Donnell. “Most often in cities, there aren’t 11 acres already ‘put together.’” Much of the land for the site chosen, she says, was foreclosed property owned by banks. Some of the land was owned by the city,

while other portions were privately owned.

“With any big development project — especially in the city — there’s a lot of moving parts,” Donnell says. “Plus, there’s the design and site work considerations. Those all have to be done almost concurrently so that you’re ready to start the project. We started into development phase, land assembly, financing, planning, environmental assessment, all at that time.”

With a little help from some friends

Evergreen didn’t blaze the trail alone. Kent State University’s Ohio Employee Ownership Center (OEOC), established in 1987, provides technical assistance to worker ownership projects and had helped with the previous Evergreen co-op projects. Roy Messing, OEOC’s interim director, helped pull it all together.

“Our motivation is to provide employee ownership,” he says. “We’ve done a lot of work with conversions [from private to worker ownership], but this was a chance to launch a project

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ESOPs, worker co-ops each have **advantages**

The Ohio Employee Ownership Center (OEOC), a nonprofit program based at Kent State University, was established in 1987 to provide outreach and technical assistance to Ohio employees and business owners interested in employee ownership. OEOC provides training to existing employee-owned firms and helps establish startup employee-owned ventures.

Startup projects, such as Green City Growers Cooperative, are much less numerous than are businesses converting from private to employee ownership. The Center has participated in more than 100 such conversions since its founding in 1987, according to Roy Messing, its interim director. "Our founder, John Logue, was looking at Employee Stock Ownership Plans as a way to extend the lives of steel and other companies that were having a rough time in the late 1980s," he says.

According to Messing, the majority of conversion projects have been Employee Stock Ownership Plans, or ESOPs. In an ESOP, shares in the company are given to employees as part of their compensation. The shares are held in trust until an employee retires or leaves the company, at which point the shares are sold.

In effect, ESOPs function as retirement plans and are governed by the Federal Employee Retirement Income Security Act (ERISA). While ESOPs may be issued by a company in which the original owners still hold the majority of shares, in a "100-percent ESOP" the shares also provide a means by which ownership can be completely transferred to employees.

ESOPs offer tax advantages

ESOPs can provide significant tax benefits to the original owners. "If you sell at least 30 percent of your shares to your employees, you can defer capital gains under Section 1032, so that's a benefit for the owner," says Messing.

By making a 100-percent ESOP an S Corporation, all income tax can be avoided until shareholders receive cash from the trust, usually in retirement, according to a pre-determined formula. S Corporations (or S Corps) are corporations that — instead of paying federal income tax — pass corporate income tax liability through to their shareholders.

Shareholders of an S Corp report their portions of income and losses on their personal tax returns and are taxed at their individual rates. That means S Corps shareholders avoid double taxation on the income from their shares.

"If it's a 100-percent S Corp ESOP, 100 percent of the shares are held by the ESOP itself and the S Corp, so all the earnings flow to the trust," says Messing. "Therefore, there's no income tax. We're seeing a recent trend where many businesses are transitioning to 100 percent ESOP and taking that tax benefit, [thereby] having a big windfall in the short term." (Editor's note: An article in the January-February 2009 issue of *Rural*

Cooperatives describes how a loan guarantee from USDA Rural Development was used to finance a 100-percent employee-owned conversion of Doucette Industries Inc., which designs heating and cooling systems. Past issue of *Rural Cooperatives* magazines can be accessed at: www.rurdev.usda.gov/BCP_Coop_RurCoopMag.html).

Tax benefits provide a powerful incentive to owners to go the ESOP route, Messing says. "There's not a great deal of tax incentives for a co-op, because you have 8 ½ months to distribute the patronage." As a result, there are about 300 traditional worker cooperatives in the United States as compared to an estimated 10,000-to-11,000 ESOP companies, says Messing, "With the ESOP, you can still establish bylaws that are very cooperative in nature, so you can still have a democratically run business."

Co-op structure best for small companies

Despite the attractions of an ESOP, Messing believes there is an important place in rural development for the worker cooperative. "If you don't have 20 employees or more, you can't justify an ESOP," he says. "So smaller businesses go the more traditional employee-co-op route. I think there are going to be more opportunities for worker co-ops in rural America, where you've got these small towns and companies with 10 or 15 workers, the owner is going to retire and there's no son or daughter to transition it to. So that's something we're going to continue to highlight."

Motivations tend to differ between startups and conversions, says Messing. "With startups, there's a mission involved," he says. "With conversions, retiring owners want to continue the operation (once they are no longer owners). It's an interesting blend. Some see their business as a legacy and they want their employees to continue that legacy. With others, they realize their employees helped get them where they are and they want to benefit them.

"People ask what type of company is a good candidate for conversion to employee ownership," Messing says. "And I say it's a profitable company, because you have to take out debt to buy out the equity of the owner who is departing. We see cases where people want to transition to an ESOP or a workers co-op, and the numbers don't work. In those cases, we advise them not to move forward."

Possible stumbling blocks are numerous. "They may not have the management capability, or the owner wants to step back from a management role," says Messing. "Then they have to bring in the right people or train the right people to fill that management void. Each case is different."

—Stephen A. Thompson

Legal Corner

Co-ops should periodically evaluate their member equity practices

By David Cook

Editor's note: Cook is an attorney with the law firm of Autry, Horton & Cole, LLP in Atlanta, Ga., who practices in the area of cooperative law and taxation. He previously worked as an auditor of cooperatives. He regularly contributes to a cooperative law blog at: www.abclaw.com/cooperative.

In recognition of the remarkable assistance they provide to rural communities and their unique attributes, cooperatives receive various benefits under federal, state and local laws, such as tax exemption and deductions. One of the key attributes cited in support of these benefits is the return of earnings, or margins, to members and patrons on a patronage basis. Cooperatives generally accomplish the return of earnings and margins through patronage dividends (also called patronage refunds), per-unit retains, or retirement of capital credits.

This concept is best illustrated by contrasting cooperatives with for-profit companies. Unlike for-profit companies, which normally return equity (or accumulated earnings) in proportion to their owners' capital investment, cooperatives return equity in proportion to the amount of business conducted with or for each member or patron.

Courts and the Internal Revenue Service (IRS) have reasoned that return of equity on the basis of patronage is consistent with the idea that cooperatives are mere conduits or agents of their members and patrons. Accordingly, unlike for-profit



companies, cooperatives should not pay taxes on patronage earnings.

The obligation of cooperatives to return equity on a patronage basis arises from a variety of sources, such as state laws, federal tax laws, bylaws and contracts with members and patrons. Whatever the source, cooperatives generally have a legal obligation to return their earnings on a patronage basis when they are financially capable. This article addresses the importance of returning earnings to members and patrons within a reasonable time. It also discusses the risks associated with failure (or a perceived failure) to do so.

Environment of increased risk

In general, cooperative members and patrons recognize the tremendous benefits provided by cooperatives. Cooperatives are owned and effectively controlled by members, who also are their customers. Thus, it should come as no surprise that a huge majority of

patrons and members are deeply dedicated to their cooperative and satisfied with the services it provides.

At the same time, cooperatives have long faced the risk that members and patrons will allege mismanagement of the equity of members and patrons ("member equity"). Such allegations of mismanagement have involved, for example, the timeliness of returning member equity, discounting member equity, setting off member equity with outstanding debts of members and patrons, and discrimination in the return of member equity.

In recent years, some cooperatives have faced increased complaints and litigation, including class action lawsuits, arising from alleged mismanagement of member equity. For instance, plaintiffs in these lawsuits have alleged:

- A cooperative failed to retire member equity despite having the financial wherewithal to do so;

- A cooperative violated its own member equity policy;
- A cooperative violated a state statute concerning return of member equity;
- A cooperative's bylaws violated public policy because they effectively resulted in forfeiture of member equity;
- A cooperative had no system in place to routinely return member equity;
- A cooperative did not notify its members and patrons of their member equity allocations;
- A cooperative's practices discriminated against classes of members (e.g., former members) in favor of other members;
- A cooperative maintained an excessive amount of member equity or unusually high equity-to-asset ratio, suggesting that it was not properly and timely returning member equity;
- A cooperative improperly discounted member equity and retained the discount as permanent equity; and
- A cooperative's board of directors had concealed the amount of each member's equity by preventing access to the cooperative's books and records and denying members access to board meetings.

These are serious allegations against any cooperative. But given the large amount of member equity held by some cooperatives, they can have a significant impact on a cooperative's finances and member relations. Damages awarded in class action lawsuits involving member equity can be substantial, so the risk of such complaints should be evaluated and mitigated.

What are the risk factors?

While most cooperatives will never face such a complaint, all cooperatives should evaluate their member equity practices to limit their risk — and to promote goodwill with patrons and members. As with any risk analysis, the starting point is to identify and quantify the risk factors. The following are potential risk factors to consider:

- Magnitude of member equity: A higher balance of member equity in comparison to debt indicates higher risk.

- Age of member equity and length of rotation periods: The longer a cooperative retains member equity, the greater the risk.
- Turnover and contested elections: Intense election contests, and a high turnover of directors and management, generally indicate higher risk.
- Member or patron satisfaction: As members and patrons feel less satisfied with their cooperative, the risk level increases.
- Cost/benefit comparison: When customers perceive less benefit in relation to cooperatives' fees, the risk level increases.
- Competitor pricing comparison: When customers perceive the cooperative's costs and fees as greater than the fees of local competitors, risk increases.
- Economic conditions of the community: When the economy of the cooperative's community declines, risk increases.
- Media exposure: Negative media exposure can increase risk.

After evaluating these and other factors, cooperatives should look at their current policies and practices to mitigate their risk.

Tips for effective management of member equity

There are several ways to reduce the risk of complaints concerning member equity management. The first, and most important, method is to document and adhere to a rational member equity management plan. Such plans are normally adopted by the cooperative's board of directors, board of trustees or similar board through a bylaw provision or board policy.

Second, cooperatives should appoint someone, preferably from the board or management, to oversee compliance with the plan. Since some board members may not be as familiar with cooperative principles, they may not understand the importance of following a member equity management plan. The appointed person should become

familiar with the plan and periodically review the cooperative's practices to verify the cooperative's adherence to the plan.

Third, the cooperative's financial officer or accountant should specifically dedicate a portion of his or her time to evaluating the cooperative's ability to return member equity and explaining such evaluation to the board. Any decision to return member equity will necessarily impact the cooperative's financial situation. As a result, a cooperative's board should consult with its financial advisors about the propriety of any decision concerning member equity.

Fourth, cooperatives should educate their board members, management and staff, along with their members and patrons, about the role of member equity. Cooperative boards and management need to understand the importance of member equity management, and the associated legal requirements and restrictions.

Just as important, cooperatives should educate their members and patrons about member equity and its eventual return. It not only serves to reduce the risk of unfounded complaints, but it also can be used to illustrate the unique benefits of being a cooperative member or patron — especially in contrast to for-profit companies.

Finally, there is no better way to educate members than by sending them a check in return of member equity, along with an explanation of why they are receiving the check.

Cooperatives provide valuable benefits to their members and patrons in a manner that justifies special benefits under the law. Although most cooperatives will never face complaints over member equity mismanagement, it would benefit any cooperative to evaluate its current policies and practices to ensure their legal compliance and — just as importantly — promote goodwill with members and patrons. ■

Management Tip

Talent Management: It goes way beyond recruiting

By Jay Lux

Vice President of Talent Management
FCC Services

Editor's note: This is the third and final in a series of articles provided by FCC Services.

The best team wins. We all know this. We also know this doesn't happen by accident. Having a plan and structure for selecting and developing the right talent, moving it to the right place at the right time, and understanding key areas of engagement to retain and motivate that talent will set your team apart from the competition. Talent management strategy not only makes sense, but research also supports its effectiveness.

In one recent study, conducted by Right Management group, 49 percent of 628 senior managers and human resource professionals surveyed cited talent management as their company's top priority. However, the study also showed that only 12 percent of major North American organizations have a fully implemented talent management strategy.

Significant research and best-practice literature cite a few key components in the strategy process:

- Selection and recruitment;
- Succession management;
- Employee engagement.

Selection and recruitment

Successful talent management strategy begins with selecting the right person for each position. Hiring people



can be risky, but hiring the right person based on data — not intuition — can minimize risks and increase the likelihood of success.

Every person has talents and abilities. The challenge is to fit those talents to the right position. For example, some people are naturally more introverted and some are better able to interact with others. Some people are naturally good at working with details while some are less inclined to excel at those kinds of tasks.

Effective selection begins with identifying the appropriate skills for the role. Clarifying with great specificity the skills needed for success will allow you to better assess potential candidates. Measuring candidates' skills and comparing them to your needs increases the chances of success for all involved.

Placing an introverted individual into a job that requires considerable interaction with others will surely result in frustration and, ultimately, hinder performance. There are, of course, no absolutes (even some of the most introverted people can interact effectively with others at times). But people do have personality tendencies which help show where people fit best and where they may struggle.

Maximizing the fit between an individual and the role will enhance role satisfaction and performance on the job.

Technology can help

How do you drive this understanding? Using a robust assessment process for hiring the right people goes a long way to building the best team. Use of statistically reliable selection instruments is one key.

These tools used to be expensive and cumbersome. But with today's technology, most assessments are completed online with ease, speed and little expense. And they also add measurability to what is otherwise an intuitive process.

Statistical reliability is critically important to the effectiveness and quality of whatever assessment you choose to use. FCC Services uses a variety of statistically validated selection instruments.

The assessment instruments listed below meet the strictest quality standards and exceed the American Psychological Association's recommendations on reliability. It is important to match the tool with the objective of the selection process.

The Predictive Index (PI) — This

measures individuals for key aspects of personality: Dominance, extroversion, patience and formality. In addition, clients complete the PI Performance Requirement Options, an instrument to identify the levels of each trait that would most effectively drive performance in a given role.

The Kenexa Structured Interview — Kenexa brings years of selection experience to its formalized interview process to help uncover key personality traits that motivate the candidate. These key motivators are fundamental aspects of individual behaviors and performance.

The Hogan Lead — The Hogan has multiple instruments to give the most reliable data for selection, as well as development of potential employees: personality style and motives/ preferences/interests.

The Watson Glaser Critical Thinking Assessment — This measures applicants on key aspects of critical thinking style — recognition of assumptions, evaluation of arguments, and deductive reasoning. In addition to individual personality styles and performance in an executive role, critical thinking and cognitive skills rank among the most important talents.

The Emotional Competence Inventory (EQi) — Emotional Intelligence is one aspect of how people conduct themselves and is consistently related to top performance. The EQi is an instrument that measures levels of how people interact with others, which is a driver of effective performance in the workplace.

In addition to solid assessment tools, a consistent approach to interviewing candidates adds to the reliability of your selection process.

Behavioral interviewing

FCC Services recommends an approach referred to as “behavioral interviewing.” The premise of this method is that the best predictor of future performance is past performance

in similar circumstances.

In this approach, interview questions are designed so that the candidates must relate specific examples of how they have previously used the critical competencies or skills required in a job. For example, if a job requires good organizational skills, you would not simply ask, “Are you an organized person?” but rather, “Tell me about a large project where you were responsible for organizing and managing all the details.”

With behavioral interviewing, the amount of information and insight garnered from each question is far greater than traditional interview questions.

Succession management

Once you’ve hired the right people, moving them into the right positions at the right times throughout their career is critical. Understanding where your talent is on their development path is an indispensable strategic business objective.

A regular review of the organization’s talent is key to achieving results today and into the future. A structured tracking system for human capital is a competitive advantage that will keep you ahead of the industry.

A sound succession management strategy tied to overall business objectives brings a structured approach to your organization to ensure maximization of human resources. It strives to retain and develop intellectual capital and knowledge for the future through:

- Achieving long-term business results;
- Growing internal capacity – skills, leadership;
- Driving individual developmental activities;
- Identifying positions and/or employees at risk;
- Maximizing diversity;
- Identifying areas where external selection may be the most appropriate.

A well-proven succession-management program generally follows a few key steps:

Begin with a review of organization strategy — It is critically important that the strategic needs of the organization drive the talent and skills that support that strategy. Succession management activities that are not fully aligned with the business strategy may result in hiring or developing for skills that are not supportive of the strategy or, worse yet, oppositional to it.

Identify key roles critical to that strategy — Once the strategy has been clearly articulated and discussed, it is important to evaluate the key roles that are needed to support the business and determine if any of those positions (or people in them) are at risk of changing (i.e., retirement).

Define the competencies (skills) needed to perform effectively in the key roles — A clear agreement on exactly what competencies (skills) define “talent” in your organization is essential. This can be more challenging than it sounds. For example, clearly understanding and agreeing on the skills that managers must have beyond technical know-how in their specific areas may require lengthy discussions to gain consensus from all involved.

Leaders observe and evaluate individual proficiency with the competencies — Once the competencies for success have been defined, leaders must take the time to observe individuals to see how they perform relative to those competencies (not just their current position). The task then is to evaluate that performance and place a value on it.

Key leaders discuss the evaluations (“talent review”) — The talent review session is typically conducted twice a year. In these sessions, leaders come prepared to discuss what they have observed. This is generally when some rating or evaluation process takes place (i.e., does

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Essential economic roles of farmer co-ops

By K. Charles Ling, Ag Economist
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***Editor's note:** This article focuses on the core points of the author's presentation, "Farmer Cooperatives and Value Creation: the Example of Dairy Farmers in the United States," delivered at the 5th meeting of the Organization for Economic Cooperation and Development (OECD) Food Chain Analysis Network, Oct. 30-31 in Paris. It is also a concise summary of a recently completed study into the nature of the cooperative, as reported in two recent research reports available from USDA Rural Development (RR 221 and 224) and a series of nine articles that have appeared in Rural Cooperatives magazine.*

This summary addresses four salient points:

- 1. Economic structure of cooperatives — what are cooperatives?*
- 2. Market performance of cooperatives — what do cooperatives do?*
- 3. Transaction governance roles of cooperatives — how do cooperatives interact with other market participants?*
- 4. Variations on the cooperative business model.*

Economic structure of cooperatives — what are co-ops?

In his 1942 book, *Economic Theory of Cooperation: Economic Structure of Cooperative Organizations*, Ivan V. Emelianoff said that for economic analysis of cooperatives, the economic structure of cooperative organizations should be clearly defined, and the

definition should be free from the encumbrance of sociological, legal, technical, social-philosophical and ethical considerations.

His definition: "Cooperative organizations represent the aggregates of economic units."

"Aggregate" is commonly defined as: "Any total or whole considered with reference to its constituent parts; an assemblage or group of distinct particulars massed together."

As defined by Emelianoff: "An economic unit, or economic individual, is an economic body admittedly complete and sufficiently integrated for individual existence and independent (in conditions of an exchange economy — interdependent) economic functioning."

This economic definition of cooperatives seems to be simple, yet it is very robust. What naturally flows from this definition are what people often call "cooperative principles," such as: members own, members control, members use, and members benefit from the cooperative.

Following Emelianoff's definition, these are the characteristics of cooperatives:

- A cooperative is an agency owned and controlled by members and through which they conduct their business.
- Each member-farm fully retains its economic individuality and independence.
- The board of directors is elected from among member-farmers.
- Proportionality and service at-cost are two basic working principles.
- Members provide advances (i.e.,

equity capital) for financing the cooperative.

- Patronage refunds are returned to members who have been underpaid or overcharged.
- Dividend on capital, if any, is interest payment for using members' capital.
- The cooperative is neither a horizontal integration of its members nor a vertical integration between the cooperative and its members. "It is a third mode of organizing coordination." (*Shaffer*)

Market performance of cooperatives — what do cooperatives do?

The first academic paper on the theory of cooperation, "Economic Philosophy of Co-operation," by Edwin G. Nourse, was published in 1922 in the *American Economic Review*. His ideas still have relevance to the reality of market performance of cooperatives today.

Several examples from the paper illustrate how farmers organized in agricultural cooperatives can jointly perform certain market functions efficiently — functions which usually cannot be satisfactorily carried out alone by individual farmers. These include:

- *Cooperation to gain market access* for producers who otherwise do not have a market outlet.
- *Local and regional coordination* of cooperatives to compete with private competitors that have grown to great sizes.
- *Formation of region-wide associations* of

growers, often in horticultural regions, to assemble, process and distribute their products.

These examples show how cooperatives are organized and grow to enable farmers to exercise countervailing power and compete. Although Nourse did not directly use the term “countervailing power” (the term was coined later, by Galbraith in 1956), he did state that the keynote of the philosophy of cooperation was for agriculture to have a type of organization of the size that has an effective bargaining position in dealing with commercial organizations.

Another term in the cooperative lexicon that is attributable to Nourse is “competitive yardstick,” following his “brief remark” in 1945, in which he said the place for the agricultural cooperative in the nation’s business “is primarily that of ‘pilot plant’ and

‘yardstick’ operation. Its objective is not to supersede other forms of business, but to see that they are kept truly competitive.”

This is the summary of Nourse’s ideas regarding the roles cooperatives play in the marketplace:

- Cooperatives are organized for efficiently carrying out specific business functions.
- Cooperatives can be of any size and geographical scope that allows them to function efficiently in the marketplace.
- Cooperatives afford farmers the organizational sizes for exercising countervailing power.
- Cooperatives are pro-market; they let the market supply-and-demand price be the guidance for producers.
- Cooperatives are a means for farmers to promote and maintain competition — as the competitive yardstick of

efficient operations.

- In those fields where the market has become truly competitive and farmers can be well served by other firms, cooperatives may want to cede the field and assume only a stand-by position (to preserve members’ capital, time and efforts for use on the farm), while maintaining the legal institutions and organizational capacity to step in if there is a relapse of market inadequacy.

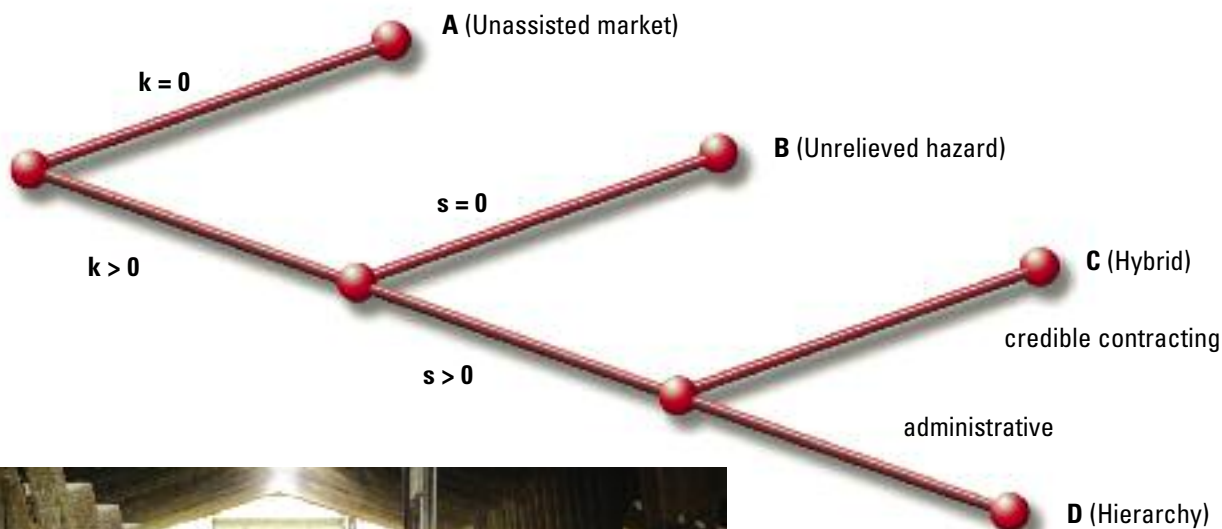
[Author’s note: Whether the market could ever be truly competitive is debatable.]

Transaction governance roles of cooperatives — how do cooperatives interact with other market participants?

Cooperatives interact with other market participants through their roles in transaction governance, or “in aligning incentives and crafting

Figure 1 — A simple contractual schema

Adapted from *Williamson, 2005, Figure 1: Simple Contractual Schema.*



“Each member farm fully retains its economic individuality and independence,” according to the co-op attributes outlined by economist Ivan V. Emelianoff. Seen here is the Hepler Homestead dairy farm, near Pitman, Pa., a member of the Dairylea Cooperative. Photo by Mitch Wojnarowicz, courtesy Dairylea

governance structures that are better attuned to their exchange needs.” (Williamson, 2002, p. 172).

In marketing milk and milk products (for example), farmers and their cooperatives may engage in the following transaction scenarios.

Scenario I. In a subsistence agricultural economy, farm production in excess of family consumption may be sold off farm. There could be many sellers and buyers. The transactions are incidental to subsistence farming, do not require specific assets, and primarily belong to a bygone era.

Scenario II. Commercial milk production requires capital investment in specialized assets that cannot be easily employed for alternative uses. Asset specificity, product perishability and market volatility cause uncertainty and pose hazards to the investment of dairy farmers. They are vulnerable when dealing with a small number of milk buyers (processors). They may organize cooperatives to gain countervailing power. However, contracts that spell out the terms of trade as legal rules may not relieve the hazard. It is impossible to foresee and encompass all contingencies in a contract due to human limitations;

relying on courts for relief is time-consuming and costly.

Scenario III. Cooperatives are organizations of farmers and have comparative advantages of working closely with members for assembling milk, providing field services and performing farm-related functions. Many processors have chosen to rely on cooperatives for milk supplies that are tailored to their requirements for volume, quality, composition and/or delivery schedule. Under such an arrangement, the transactions are assisted with what is called credible contracting and supported by inter-firm contractual safeguards. Instead of a set of legal rules with court enforcement, the contract here is a framework or a set of guidelines for interactions between the firms. Discrepancies in performance are resolved through amicable consultation or negotiation or by arbitration.

Scenario IV. In addition to selling members’ milk, it may be necessary for a dairy cooperative to forward-integrate into processing dairy products to balance milk supply or to generate higher margins from the market for members’ milk. These processing enterprises are under the cooperative’s

hierarchical administrative control .

The roles of a cooperative in the above scenarios fit with the analysis of the roles of a firm in transaction governance that constitute the core of transaction-cost economics (Williamson, 2010, 2007, 2005 and 2002). The four scenarios correspond to the four transaction modes in table 1 that is adapted from Williamson’s Simple Contractual Schema (figure 1).

The transaction governance structure Mode A is the unassisted market. The governance structure Mode B is the market where asset specificity exposes transacting parties to uncertainties and, without safeguards, to unrelieved contractual hazards to their investments. Mode C is where the market is assisted with credible contracting. All successive production stages are integrated under hierarchical control in transaction governance Mode D.

The attributes of a market mode are high-incentive intensity, little administrative control, and a legal-rules contract regime. On the other hand, attributes of hierarchy are low-incentive intensity (where pricing for the successive stages is at cost-plus), considerable administrative control (by

Table 1 — Transaction governance modes and attributes

Transaction governance mode	Asset specificity (k)	Investment hazard safeguard (s)	Incentive intensity	Administrative control	Contract law regime
A: Unassisted market	0	0	High	Little	Competitive norm
B: Unrelieved hazard	>	0	<	>	Legal rules contract regime
C: Hybrid (Credible contracting)	>	>	<	>	Credible contracting
D: Hierarchy (Administrative)	>	>	Low (pricing for successive stages is cost plus)	Considerable (by fiat)	Internal implicit contract law (Forbearance)

Source: Adapted from Williamson, 2005, Figure 1: Simple Contractual Schema.
 Note: “>” indicates a mode having a higher intensity of the particular attribute than the mode above it.
 “<” indicates a mode having a lower intensity of the particular attribute than the mode above it.

Table 2 — Variations on the cooperative business model

Types of cooperatives	Structure	Organization	Governance	Source of equity	Operation
Dairy cooperatives ¹	Aggregates of economic units	Centralized member organizations	Member-governed	Members	Members' exclusive marketing agent—unique economics
Agricultural marketing cooperatives	Aggregates of economic units	Mostly centralized member organizations; some are federated	Member-governed	Members	Unique economics if exclusive marketing agent; otherwise, like other firms
New-generation cooperatives	Aggregates of economic units	Centralized member organizations	Member-governed	Members; tied to delivery rights	Business volume defined by delivery rights
Purchasing cooperatives ²	Aggregates of economic units	Local (retail) cooperatives are centralized; many federated with other locals; federated cooperatives may have direct members	Member-governed	Members	Sourcing supplies or services for sale to members and patrons
Affordable Care Act CO-OPs ³	Aggregates of economic units (health insurance subscribers)	Organized by sponsors; then become local (in-State) centralized member organizations	Initially formation board; then member-governed	Sponsors and supporters; accumulated surpluses	Operations are the same as other insurance issuers in the relevant markets; must meet CO-OP Program standards and requirements
Multi-stakeholder cooperatives ⁴	Aggregates of economic units	Centralized member organization	Member-governed	Members	A framework for multi-party, multi-stage credible contracting among members
Farm production cooperatives	Aggregates of economic units that are not independent in production operation	Centralized member organization	Member-governed	Members	A vertical integration between members and the cooperative in production
Cooperatives with non-patronage members	Mixture of patron and non-patron members	Defined by state laws	Defined by state laws	Defined by state law	Defined by state laws; most likely member-patrons' business

¹Separately listed and used as the standard bearers of traditional cooperative business model.

²Include farm supply cooperatives, utility cooperatives, service cooperatives, consumer cooperatives, credit unions, etc.

³Qualified Nonprofit Health Insurance Issuers under the Consumer Operated and Oriented Plan (CO-OP) Program.

⁴Defined as cooperatives having, for example, farmers, final customers and intermediaries in the supply chain as members.

fiat) and forbearance is the implicit contract law of internal organization (the parties must resolve their differences internally).

Cooperatives are transaction governance structures, as are non-cooperative firms. Depending on the lines of business, transactions can occur under all possible governance modes. Cooperatives adapt to various governance modes for economizing on

the transaction cost.

For entering into credible contractual relationships with buyers, the cooperative's functions of providing market access and exercising countervailing power put its members, collectively through the cooperative, on a relatively more equal footing with buyers. This should make credible contractual relationships between sellers and buyers more attainable and stable.

Furthermore, as its members' collective marketing agency, the cooperative serves as a single transaction entity for credible contracting with buyers. Therefore, it introduces order and eliminates conflicts among members who would otherwise be competing individually for customers. All these should contribute to lower the transaction cost.

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Newsline

Co-op developments, coast to coast

Send co-op news items to: dan.campbell@wdc.USDA.gov

USDA helping utility co-ops expand services

Agriculture Secretary Tom Vilsack in October announced funding for rural electric utility system improvements that will benefit residential and business customers in 23 states. The projects include more than \$14.3 million to implement smart grid technology and nearly \$11 million to improve electric service for Native Americans.

The \$960 million in USDA loan guarantees will help build 3,587 miles of line that benefit about 17,000 rural residential and business customers. The Obama Administration has invested \$152 million in smart grid technologies nationwide during 2013.

John Padalino, administrator of USDA's Rural Utilities Service, made the announcement on the Secretary's behalf while addressing a regional meeting of the National Rural Electric Cooperative Association (NRECA) in San Antonio, Texas. "These investments will ensure that rural electric infrastructure will continue to meet the electricity needs of rural residents, farmers, and commercial and industrial customers," Padalino said. "This funding is part of the Obama Administration's vision for a new rural energy economy."

Callaway Electric Cooperative in Missouri, which serves 13,000 customers, received a \$9.3 million loan guarantee. The funds will be used to build 40 miles of distribution line and make other system improvements. The loan includes \$1.9 million for smart-grid projects.

In September, USDA announced funding to improve service for about 7,000 additional rural customers in



A crew from Callaway Electric Cooperative (CEC) works on power lines in its rural Missouri service territory. Photo courtesy CEC

seven states. The more than \$136 million in USDA loan guarantees will help build more than 2,200 miles of electric lines, fund more than \$5 million in smart-grid development and provide nearly \$3 million to improve electric service for Native Americans.

In Minnesota, USDA will finance nearly \$16 million in loan guarantees to build more than 200 miles of electric line and finance more than \$1.7 million in smart-grid technologies for two projects. North Itasca Electric Co-op will receive nearly \$6 million, and Mille Lacs Energy Cooperative will get nearly \$10 million to keep electric power reliable and affordable for rural customers.

For a full list of fund recipients, visit the newsroom at: www.rurdev.usda.gov.

Poll shows strong preference for co-ops

About 74 percent of surveyed consumers in Minnesota and Wisconsin prefer doing business with a cooperative

over an investor-owned businesses, according to the results of a survey conducted by St. Norbert College's (De Pere, Wis.) Strategic Research Institute. The survey was commissioned by the Cooperative Network, which provides government relations, education, marketing and technical services for its 600 member co-ops in the two states. The survey results were announced to help celebrate National Cooperative Month during October.

The study, funded by CHS Inc., asked more than 400 people in the two states about their opinions of, and use of, cooperatives. The pollsters contrasted results to a comparable study performed in 2007 (prior to the recession).

This year's results (2013) revealed that nearly three of every four (74 percent) respondents who indicated they were members of a cooperative said they were more likely to choose cooperatives over other businesses, based on their past experiences. That is

up from 71 percent in 2007.

Other notable findings included:

- 47 percent of people surveyed had at least one member of their family who belonged to a co-op, compared to 36 percent in 2007.
 - 69 percent of people who ran a business within their home were also members of a co-op, statistically similar to 2007 results.
 - 18 percent of people associated the words “teamwork/collaboration” with “co-op” or “cooperative” — a correlation that did not appear in the 2007 study.
- “Minnesota and Wisconsin have a

rich cooperative history and are home to nearly 2,000 cooperative businesses — one of the highest concentrations in the U.S.,” says Bill Oemichen, president and CEO of Cooperative Network. “It is appropriate that this year’s Co-op Month theme was ‘Collaborate, Communicate, Cooperate,’ three simple words that illustrate the bedrock of cooperative business.”

Wisconsin Governor Scott Walker and Minnesota Governor Mark Dayton both signed Co-op Month proclamations (as did many other governors, as well as U.S. Agriculture

Secretary Tom Vilsack) recognizing the significant contributions co-ops make to the states’ economies.

Co-op statistician Bette Simmons dies

Elizabeth “Bette” J. Simmons, 86, a former member of the co-op statistics unit of USDA’s Farmer Cooperative Service (now the Cooperative Programs of USDA Rural Development) died Sept. 16 in Greenbelt, Md. Burial was Sept. 26 at Gate of Heaven cemetery in Silver Spring, Md.

In the late 1970s and early 1980s, Simmons played a key role in the

Dairyalea, DFA pursue merger

The board of Dairyalea Cooperative Inc., Syracuse, N.Y., has voted to merge with Dairy Farmers of America (DFA). The merger proposal, presented to members Oct. 16 at Dairyalea’s annual meeting, “reflects a desire to position Dairyalea for the future amid rapidly evolving market dynamics,” according to a press release issued by the two cooperatives.

DFA’s board has endorsed the merger, which requires approval by Dairyalea’s members, who will vote on the proposal during a special meeting in February. Prior to the vote, a series of informational sessions will be held to provide Dairyalea members with a comprehensive overview of the proposed merger, a more detailed explanation of the voting process and the chance to have their questions answered.

DFA was the nation’s third largest farmer-owned co-op in 2012, with \$11.9 billion in sales. Dairyalea was the 16th largest farmer co-op, with nearly \$1.6 billion in 2012 sales.

“Today’s dairy industry is

undergoing unprecedented change,” says CEO Greg Wickham of Dairyalea. “From consolidation in the marketplace and changing farm demographics to a movement toward a global dairy industry, this change presents both challenges and opportunities.”

Dairyalea’s farmer board of directors spent the past three years in a comprehensive examination of how to best position Dairyalea’s members for the future. This effort involved soliciting member input and guidance from the “2020 Group,” a committee formed in 2010 to gather ideas on generating value beyond the traditional cooperative structure. Among many topics, the group explored how to create market opportunities for its members that peer cooperatives with investments in processing are attaining.

“Ultimately, the board determined that merging with DFA, already a longtime partner in Dairy Marketing Services, would best complement Dairyalea’s capabilities and resources, while securing flexibility and increasing value for our members,”

Wickham says.

Since 2002, Dairyalea has been a member cooperative of DFA. Wickham says the proposed merger will provide Dairyalea members access to growing national and international milk markets, ongoing patronage dividends, tax benefits and other opportunities. The merger provides DFA members with long-standing customer relationships in the Northeast marketplace, enhanced farm services and expanded access to capital to facilitate strategic growth.

“In many ways, a merger with DFA is simply a continuation of the working relationship that Dairyalea has forged with DFA during the past 12 years,” says Rick Smith, DFA president and CEO.

If the merger is approved by members, six seats will be added to DFA’s board to represent expanded membership in the Northeast, and DFA’s Northeast Area Council will maintain local governance and a grassroots structure familiar to Dairyalea members. ■

transition from the manual preparation of cooperative statistics to the use of an electronic data processing (EDP) system to process statistics. She retired from USDA in 1985.

Simmons was a native of Carbondale, Pa., whose husband, Kenneth, died in 1969.

“Bette was a very dedicated worker and played an important role in tracking and compiling the data needed to document the vital role farmer co-ops play in the U.S. farm economy,” says Ralph Richardson, also a retired USDA co-op statistician.

USDA funds to aid small-scale producers

Agriculture Secretary Tom Vilsack in September announced grants being made by USDA to support small, socially disadvantaged agricultural producers, including a number of cooperatives. “These grants will help socially disadvantaged business owners get the tools they need to succeed and expand markets across the nation,” he said.

Funding is provided through USDA’s Small Socially Disadvantaged Producer Grant program, which offers technical assistance to help producers develop new markets and grow their operations. For example, the Latino Economic Development Center in Minneapolis has been selected to receive a \$200,000 grant to provide legal and business training to small Latino and Hmong agricultural producers.

A complete list of grant recipients follows. The funding is contingent upon the recipient meeting the terms of the grant agreement.

Alabama

- Alabama A&M University – \$195,730 grant to help socially disadvantaged producers build sustainable farming and agricultural businesses.

California

- Southern California Focus on Cooperation – \$200,000 grant to provide technical assistance and cooperative education to refugee and immigrant farmers.



William “Tubz” Kalipi demonstrates a hand-driven piece of equipment during a grower field day. The Makakuoha Cooperative helps Native Hawaiian beginning farmers on the island of Moloka’i.

Hawaii

- The Kohala Center Inc. – \$151,913 grant to provide technical assistance to Palili ‘O Kohala Cooperative, Maui Aquaponics Cooperative, Kau Agricultural Water Cooperative and Cho Global Farming Cooperative.

Illinois

- Pembroke Family Farmers Association – \$153,925 grant to help create business management practices.

Kentucky

- Kentucky State University – \$103,450 grant to help small socially disadvantaged producers develop cooperatives, register and secure proper title to farmland and fully use various USDA programs that assist small farmers.

Massachusetts

- Cooperative Development Institute – \$45,192 grant to help partner organizations in Maine, New Hampshire and Vermont provide technical assistance to immigrant and refugee farmers from Bhutan, Somalia, Burundi, Sudan and the Congo.

Minnesota

- Latino Economic Development Center – \$200,000 grant to provide

legal and business training to small Latino and Hmong agricultural producers.

New Mexico

- Southwest Development Center Inc. – \$150,000 grant to help set up and manage two food hubs at a food cooperative.

North Carolina

- North Carolina A&T State University – \$196,120 grant to help farm businesses develop marketing plans.

New York

- North Country Grown Cooperative Inc. – \$109,552 grant to provide training on peer-to-peer learning and business development practices.

Puerto Rico

- Cooperativa De Ganaderos De Carne De Res – \$123,800 grant to develop a marketing plan, provide legal assistance and animal health and humane treatment training.

South Carolina

- Farmers Cooperative/Community Improvement – \$40,700 grant to provide legal assistance, leadership training and identify ways to expand agricultural production.

South Dakota

NCB Co-op 100 tops \$226 billion in sales

National Cooperative Bank (NCB) has released its annual list of the nation's top 100 cooperatives, showing that businesses on the list generated \$226.4 billion in sales in 2012, a 5-percent increase from 2011. The *NCB Co-op 100* includes co-ops from all sectors of the economy, whereas the top 100 co-ops list USDA compiles (see the September-October 2013 issue of *Rural Cooperatives*) is limited to agricultural co-ops.

"The *NCB Co-op 100* is a great reminder of the substantial impact and important role cooperative businesses play in our national economy across every sector," says Charles E. Snyder, president and CEO of NCB. "As we continue to see improvements in the market, there is an increase in the formation of new cooperatives in urban, suburban and rural settings, offering competitive goods and services to meet the needs of these communities.

"As a socially responsible financial institution, created to address the needs of our nation's cooperatives, we are proud of our role in supporting the growth of these organizations, while also giving back to the communities they serve," Snyder adds.

Below are the top two co-ops in each of the major business sectors of the *NCB Co-op 100* (followed by their headquarters location, 2012 revenue and overall ranking on the list):

Agriculture:

- CHS Inc., Saint Paul, Minn. — \$40.6 billion, ranking first overall;
- Land O' Lakes, Saint Paul, Minn. —



Navy Federal Credit Union (NFCU) is the top-ranked financial credit union on the NCB Co-op 100 for 2012. Photo courtesy NFCU

\$14.1 billion, ranking second overall;

Grocery:

- Wakefern Food Corp, Keasbey, N.J. — \$11 billion, fourth overall.
- Associated Wholesale Grocers Inc., Kansas City, Kan. — \$7.8 billion, sixth overall.

Hardware & Lumber:

- ACE Hardware, Oakbrook, Ill. — \$3.8 billion, 10th overall;
- Do It Best Corp., Fort Wayne, Ind. — \$2.6 billion, 15th overall;

Finance:

- Navy Federal Credit Union, Merrifield, Va. — \$3.6 billion, 12th overall;
- CoBank, Greenwood, Colo. — \$2.1 billion, 20th overall;

Healthcare:

- HealthPartners Inc., South Bloomington, Minn. — \$3.9 billion, ninth overall;
- Group Health Cooperative, Seattle, Wash. — \$3.6 billion, 13th overall;

Energy & Communications:

- National Cooperative Refinery Assoc., McPherson, Kan. — \$4 billion, eighth overall;
- Basin Electric Power Cooperative, Bismarck, N.D. — \$1.9 billion, 24th overall.

While the companies and rankings of the list change every year, the overall cooperative sector continues to advance, playing an increasingly influential role in the global economy. As a long-time advocate for cooperatives, NCB notes that its mission is "to provide critical financing to promote the growth and expansion of these businesses, while also deploying hundreds of millions of dollars to support underserved communities and cooperative expansion initiatives."

The entire *NCB Co-op 100* report is available at: www.coop100.coop. ■

- Intertribal Buffalo Council – \$200,000 grant to provide best management practices training on low-stress handling methods for buffalo.

New co-op dairy plant for Michigan

Dairy Farmers of America (DFA) in

September broke ground on an ingredient processing facility in Cass City, Mich. The \$40 million plant will serve a region where milk production is steadily outpacing local plant capacity.

At completion next fall, the 33,000-square-foot plant will process up to 3 million pounds of fresh milk daily, to be supplied by DFA member farms in the

Michigan Thumb area. Initially, the plant will produce condensed whole and skim milk, as well as cream. A phased-construction plan will allow for growth among current and future DFA members, with the potential to add additional manufacturing of value-added dairy products.

"This plant will provide a local home

for our members' milk, answering the growing need for Michigan plant capacity while building a base for value-added processing in the future," says Mark Korsmeyer, executive vice president of DFA.

Numerous partner agencies contributed substantial support to the plant. The Michigan Strategic Fund (MSF) approved a \$500,000 Michigan Business Development Program grant and a \$1 million Community Development Block Grant, while the Michigan Economic Development Corporation is contributing \$300,000 in corporate funds. MSF also awarded Tuscola County and Cass City a new 15-year Agriculture Processing Renaissance Zone designation for the project.

The Village of Cass City also offered support by providing revenue bonding valued at about \$6.7 million for a wastewater pretreatment system and public infrastructure improvements. In addition to creating at least 25 full-time positions at the facility, increased employment opportunities are expected to occur on member farms and in agriculture support industries.

DFA also announced in September it would be joining with Craigs Station Ventures (CSV) to build a \$12 million cold milk separation facility in York, N.Y. The collaboration is the first in which DFA is partnering directly with a farmer group for a project that will benefit all of the cooperative's farmer owners.

At completion, expected in the summer of 2014, the plant will begin processing nearly 1 million pounds of milk daily, with the capability to increase to 2 million pounds. The facility, which will employ 11 full-time staff, will also have the capability to provide value-added production in the future.

The plant will help meet the region's increasing demand for cream, created by existing dairy processors expanding production capabilities and new processors entering the marketplace. The remaining skim will be sold to

local yogurt and cheese plants.

Built on a dairy, the 14,000-square-foot plant will emphasize traceability, sustainability and innovation. In an effort to reduce the facility's carbon footprint, it will be connected to an anaerobic digester, which will convert manure into renewable energy for the facility.

Credit conference offers insight for co-op managers

Mid America Cooperative Education Inc., a subsidiary of the Mid America Cooperative Council (MACC), presented its eighth annual Credit Conference, Oct. 17-18 in Indianapolis, Ind. The conference attracted 30 attendees — primarily supply co-op credit managers — from Illinois, Indiana, Ohio, Michigan, Minnesota, Pennsylvania, Virginia and Wisconsin.

Points stressed during the conference include:

- Larger farmers are seeking a business relationship with their suppliers and expect them to have a solid understanding of their operations. Cooperative management needs to be committed to serving those needs.
- As grain prices soften, the suppliers of inputs and credit anticipate their management ability will be tested. Don't be the last vendor to understand critical financial information about your member/owners.
- Use credit application to list all of your co-op's credit needs. Share this information with your sales personnel to serve your member/owners' anticipated (and unanticipated) needs.
- Secondary financing for farmers has allowed cooperative input suppliers to spread their risk, while maintaining working capital needs.
- Soybean production is anticipated to grow in 2014, as corn stocks are replenished and corn prices soften.

For more information about MACC's Credit Conference, as well as the Council's other cooperative education classes, call (317) 726-6910 or send an e-mail to:

knowledge@macc.coop.

Co-ops to use tankers fueled with natural gas

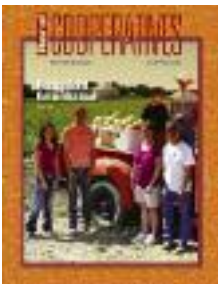
Select Milk Producers and Dairy Farmers of America are converting a portion of their diesel needs to compressed natural gas (CNG). AMP Americas announced in October that it has signed an agreement with the two co-ops, under which AMP-Trillium, a joint venture between AMP Americas and Trillium CNG, will build seven public fueling stations in Texas by early 2014. The CNG trucks will travel more than 13.2 million miles per year, servicing routes throughout Texas.

The fueling stations — which will be built in Waco, Amarillo, Harrold, Sweetwater, Weatherford, Kerrville and Midland — will initially fuel 40 new, Class-8 Kenworth and Peterbilt CNG sleeper trucks, with that number to double over the course of the agreement.

"It is estimated that the culmination of this deal will displace carbon emissions equal to removing 2,400 cars per year from the road and will save the supply chain \$1.50 to \$2 in fuel savings on every gallon sold. It lets us build a network of public, fast-fill CNG stations across all of the major Texas corridors that can be used by any fleet running trucks across the state," says Nathan Laurell, CEO of AMP Americas.

CNG is domestic, abundant and about 40 percent less expensive than diesel, Laurell notes. It reduces dependence on foreign oil and has significant environmental benefits. Because it is the cleanest burning fossil fuel, CNG cars and trucks require less vehicle maintenance and enjoy a longer engine life.

Western Dairy Transport and Reynolds Nationwide are "for-hire" trucking lines and are the only carriers involved in the agreement with the dairy co-ops. The new trucks will be a combination of both leases and purchases. The CNG fueling stations are public stations open to all haulers.



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USDA to fund advanced biofuels projects

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tribes, state or local governments, corporations, agricultural producer associations, higher education institutions, public power entities or consortiums of any of the above.

Sapphire Energy's "Green Crude Farm" in Columbus, N.M., is an example of how this program is supporting the development of advanced biofuels. In 2011, USDA provided Sapphire Energy with a \$54.5 million loan guarantee to build a refined algal oil commercial facility. Algal fuel is processed from algae. It releases CO₂ when burned, but unlike fossil fuel, the CO₂ is taken out of the atmosphere by the growing of algae.

The Green Crude Farm plant has been in continuous operation since May 2012, producing renewable algal oil that

can be further refined to replace petroleum-derived diesel and jet fuel. The facility is a fully sustainable project. Biomass not used in the production of fuel will be recycled as nutrients to support the algae ponds. Reintroducing the residual biomass to the pond systems significantly lowers overall fertilizer requirements and the carbon footprint.

According to the company, more than 600 jobs were created throughout the first phase of construction at the facility, and 30 full-time employees currently operate the plant. The company expects to produce 100 barrels of refined algal oil per day by 2015, and to be at commercial-scale production by 2018. After receiving additional equity from private investors, Sapphire was able to repay the remaining balance on its USDA-backed loan earlier this year.

In 2011, USDA issued a \$12.8 million loan guarantee to Fremont Community Digester for construction of an anaerobic digester in Fremont,

Mich. The digester, which began commercial operations late last year, is the largest commercial-scale anaerobic digester in the United States. It has the capacity to process more than 100,000 tons of food waste annually to produce biogas and electricity.

Biogas from the digester runs generators, with 2.85 megawatts of capacity. The electricity produced is sold to a local utility and is providing power for about 1,500 local homes.

Applications for biorefinery assistance are due by Jan. 30, 2014. More information about how to apply is available in the October 2, 2013 Federal Register announcement, or by contacting Todd Hubbell at USDA Rural Development, todd.hubbell@wdc.usda.gov.

Since the start of the Obama Administration, the USDA Biorefinery Assistance Program has provided about \$684 million in assistance to support biofuels projects in eight states. ■

Overseas co-op formations help reduce poverty, fight hunger

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counter malnutrition and boost the incomes of small dairy farmers, including women. Strategies include teaching farmers proper hygiene for their animals and helping them connect to processors, traders and consumers.

- In Malawi, Communications Cooperative International is setting up an information and communications technology cooperative that will give farmers access to market, management and health information via a mobile phone or Internet.

- In South Africa and Nicaragua, Cooperative Resources International is helping transform household-level producers and their cooperatives into profitable commercial firms.

- In Uganda, HealthPartners is working with a health care cooperative to reduce the effects of malaria and other catastrophic illnesses.

- In Southern Sudan, after a 20-year civil war, NRECA International launched electrification projects that are providing power to thousands of homes and businesses.

- In Mexico, the World Council of Credit Unions is working with a local credit union to ensure that banana farmers have sufficient assets to operate their businesses and get a fair price for their crop.

- In Mozambique, NCBA's CLUSA International Program helped establish producer organizations that are benefiting thousands of rural farmers through economies of scale.

Stumbling blocks remain

Despite many positive outcomes, however, OCDC members face challenges. The lack of a legal and regulatory framework for cooperatives

can be a major stumbling block in some countries, while insufficient documentation of the success of cooperative development can hinder funding efforts.

To address the legal framework issue, OCDC devised a set of cooperative business law principles that can be applied in any country. To address the documentation problem OCDC recently created a research center that will present clear evidence of the effectiveness of international cooperative development around the globe.

Over the years, cooperative organizations have lifted millions of people out of poverty by helping those in underdeveloped countries form and grow their own businesses. International cooperative development is built on the same member-owned model we see in this country — a model that can compete successfully with other forms of business anywhere in the world. ■

Growing

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that would employ people from a tough neighborhood with not a lot of opportunity.” OEOC had helped with the two earlier Evergreen projects, so a good relationship already existed between the two organizations.

Much of OEOC’s work involved financing the project. “Mary has a background in production, and Evergreen has its own formula for employee ownership, so we didn’t have to get too engaged in that,” says Messing. “A lot of what we did was on the financial side. I’m an ex-banker; we worked a lot with building out their plan, going back and forth on various iterations of their projections, and getting them connected with the right folks to go out and make the market.”

The financial package was complicated. “We worked with the Commonwealth Revolving Loan Fund, a separate entity that we manage that was the key piece for the financing,” says Messing. “We connected Evergreen with other groups that helped them round out their financial plan.”

OEOC worked to develop operating funds. Once it was demonstrated that the operation could meet financial projections, attention was turned to real estate issues, Messing explains. Evergreen’s own financial entity, Evergreen Development Corporation, did most of the work on the real estate funding package.

Evergreen also provided the financing for the pre-development stage. “Everything that happened before breaking ground, including the design work, was funded from the Evergreen Cooperative’s development fund,” says Donnell. “It was paid back at closing.”

City government plays integral role

The Cleveland city government was instrumental in making the project possible. The financial package

included \$8 million in U.S. Department of Housing and Urban Development (HUD) Section 108 Community Development Block Grant funds, issued through the city. Section 108 funds are made available to communities for economic development, housing rehabilitation, public facilities and large-scale physical development projects. In addition, the city provided \$2 million under its own Brownfield Redevelopment Program, which seeks to provide land for new businesses and encourage economic development in hard-hit areas.

These and other funds were leveraged into New Market Tax Credits, under a U.S. Treasury program that provides tax credit incentives to investors purchasing bonds issued by certified Community Development Entities, which must invest in low-income communities. The tax credit equals 39 percent of the investment, paid out over seven years. When the seven years are up, the debt must be refinanced. The entire start-up cost of the project was \$16.5 million.

New Market Tax Credits can’t be used to finance operating expenses. Thus, real estate must be held by a separate trust and leased to the operating entity — adding to the complexity of the project.

“There was some back-and-forth over which assets would be held by the land trust and which by the operating entity; we helped with that,” says Messing. OEOC provided bridge financing through the revolving loan fund for expenses relating to administration and other activities before the construction was finished. “There’s no reason to draw down the operating loans until they’re close enough to actually start the operation,” he says.

Besides helping with the financing, the city government also helped with acquiring the real estate. “The city purchased the land, and then we

purchased the land from the city,” Donnell says. “The city has been a very good partner of ours. It wanted the greenhouse to be here. The city’s Department of Economic Development was really helpful in every way. But all of it is part of a whole — support from the top leadership, from the city planning people — it was really everybody’s commitment to the project that was a huge component of making this happen. I’m really grateful to the city of Cleveland.”

Business will transition to employee ownership

The operating company, organized under Ohio cooperative law, will become an employee-owned co-op when employees who have worked there at least a year are given shares. At least two seats on the board of directors are reserved for members elected from among the employees. Donnell says the company should have a positive cash flow by the second quarter of this year.

“We have 25 employees that we’ve hired since December, so we’re making a difference,” Donnell says. “We had 31,000 hours of construction in 2012, and all those people were buying gas for their cars and eating lunch in the neighborhood. So we started our economic impact a year and a half ago.”

When asked for advice for others contemplating such a project, Donnell echoes economic development people everywhere. “Be a problem solver, and be persistent,” she says. “You need the perseverance to make it happen.”

“My advice is to match the assets and the needs of the community,” says Donnell. “Make sure there’s a need for your products and services; a robust business plan is really important.” Getting the right people to help is also vital, Donnell stresses. “Certainly, you have to build a coalition of people who believe in the project and can bring different skills to it. And hire the talent you need, to bring the expertise in.”

“These are not easy things to do in a city,” says Donnell. “But they’re definitely worth doing and they can be done. We’re living proof.” ■

Management Tip

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the employee have “high potential,” are they “well placed in their role,” or is more time needed to evaluate the person).

Review progress, measure and follow up — After each talent review session, it is important to evaluate the processes and ask: “Are we achieving the objectives we have for succession management?”

Understanding engagement

Maximizing organizational results in today’s market requires leaders to have a keen understanding of what makes people function at the highest levels. With stiff competition for talent in today’s marketplace, understanding specific engagement factors is necessary to retain the talent you work so hard to attract.

A complete understanding of where your organization is maximizing engagement factors and where gaps may exist allows you to take the right steps to increase overall engagement and improve organizational results. As opposed to intuition and hunch, using an instrument that is based on research allows you to understand factors that do, in fact, actually impact engagement.

The most successful organizations make employee engagement an ongoing priority. Research has shown that engaged employees care about the future of the company and are willing to invest the discretionary effort to see that the organization succeeds.

In today’s knowledge-based economy, talent is the difference. Attracting the right people and retaining an engaged, competent team will set you apart from the competition. A clear, concise strategy that uses validated tools and consistent processes and tracking systems to recruit, position and engage your talent can be the difference between success and failure. ■

Essential economic roles

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A cooperative does not own the assets for producing the milk that the cooperative markets for its members; the assets and the investment hazard associated with asset specificity belong to member-farms. By pooling members’ milk in its marketing efforts, the cooperative, in essence, also pools members’ investment hazard.

As a result, each member’s share of the hazard conceivably is less than if they individually market their products. The fact that asset specificity and the associated investment hazard belong to individual members reaffirms the cooperative’s unique economic structure of being an aggregate of its member-farms.

Variations on the cooperative business model

Cooperative organizations represent the aggregates of economic units. The intrinsic cooperative structure entails the uniqueness of the cooperative’s organization, governance, equity financing and operation. Different commodities have their own characteristics and different types of cooperatives have their own special attributes.

Laying out each type of cooperative (or each cooperative) in the format of table 2 (page 23) provides a comprehensive view of their similarities and differences. Most variations occur in the

area of operation, where the cooperative’s commodities, lines of business and transaction governance modes determine how it operates.

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Commentary

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expand cooperative education via this magazine and the many other co-op reports we publish. USDA Rural Development is thus happy to help spread the word about this promising co-op project, and we hope that it can

be replicated elsewhere.

As the Evergreen cooperatives are proving, co-ops are not only good for farmers and rural people, but they can also play a major role in sparking an economic revival in urban settings. And that’s something all Americans have a stake in.

As one Evergreen co-op member says, “It’s not just a job, it’s a future.” ■

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To download from the Web, visit: http://www.rurdev.usda.gov/BCP_Coop_LibraryOfPubs.htm.



Co-ops 101: An Introduction to Cooperatives (CIR 55)

Probably the most-read co-op primer in the nation, this report provides a bird's-eye view of the cooperative way of organizing and operating a business. Now in an exciting new full-color format.



Cooperative Statistics 2012 (SR 74)

How well does your co-op measure up in comparison with others? This report helps you find out. A wealth of detailed information about 2012 including co-op assets, financial ratios, balance sheets, and income statements for various commodity sectors help you evaluate your own co-op's performance.



Cooperative Employee Compensation (RR-228) (Web only)

Employee compensation is the largest expense item for most cooperatives, averaging 4 percent of sales. This publication provides a comprehensive survey of compensation rates and benefits of U.S. agricultural co-ops.



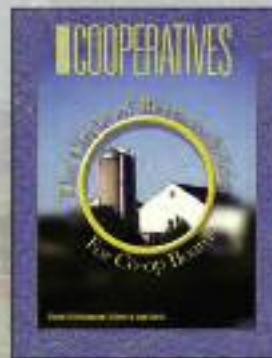
Directory of Farmer Cooperatives (SR-22)

Contains a listing, by state, of over 1,200 farmer-owned marketing, farm supply, service, fishery, and bargaining cooperatives. Includes each cooperative's contact information, type of cooperative, and products sold. Online version updated every month. Find it along with all other USDA co-op publications, at: http://www.rurdev.usda.gov/BCP_Coop_LibraryOfPubs.htm.



Strategic Planning Handbook for Cooperatives (CIR-48)

Presents a method for facilitating the strategic planning process. Facilities, personnel, and equipment associated with the process are described. The five phases of strategic planning are described in detail—agreeing to plan, gathering facts, evaluating facts, defining the plan, and evaluating results. Hints for success are provided throughout.



The Circle of Responsibilities for Co-op Board Members (CIR 61)

All boards of directors are under increasing pressure to perform well and justify their decisions. Cooperative boards are no exception. This series of articles, originally printed in USDA's *Rural Cooperatives* magazine, lays out fundamental guidelines for cooperative directors to follow.

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How well is your co-op doing?

*Does it measure up in comparison with others?
This report helps you find out.*

A survey of 2,238 U.S. farmer, rancher and fishery cooperatives, ending their business year during calendar year 2012, showed that ag co-ops had a record year, with a net business volume of \$235 billion and net income (before taxes) of \$6.1 billion.

This USDA web-only publication presents a wealth of detailed information about the nation's cooperatives in 2012, including co-op assets, financial ratios and numbers of members and employees. Balance sheets and income statements for various co-op commodity sectors are presented, both by size and products sold, to help management and board members see how their cooperatives compare with similar cooperatives.

Available now! Get it online at: www.rurdev.usda.gov/BCP_Coop_SRs.htm.

