Cooperative Healthy Food Finance Models

Micha Josephy, Cooperative Fund of New England

What is a Co-op?

Group of People (human association) Jointly Own Business (enterprise) Democratically Control
What is a Co-op?

- Group of People (human association)
- Business (enterprise)
- Market

- Jointly Own
- Democratically Control
- Exists To Benefit

What is a Co-op?

- Members (Producers, Workers, and/or Consumers)
- Group of People (human association)
- Business (enterprise)
- Market

- Jointly Own
- Democratically Control
- Exists To Benefit
Why Start a Co-op?

- Cost
- Control
- Community

### Comparison of Co-ops to Other Business Models

<table>
<thead>
<tr>
<th></th>
<th>Sole Proprietorship</th>
<th>Cooperatives</th>
<th>Public Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared Risk/ Reward</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Local Ownership</td>
<td>Generally</td>
<td>Generally</td>
<td>No</td>
</tr>
<tr>
<td>Control by Direct Stakeholders</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Economies of Scale</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Power Distribution</td>
<td>100% Owner</td>
<td>1 Person : 1 Vote</td>
<td>1 Dollar : 1 Vote</td>
</tr>
<tr>
<td>Basic Source of Equity</td>
<td>Proprietor</td>
<td>Members</td>
<td>Stock Sales</td>
</tr>
</tbody>
</table>
Who Owns Co-ops

- **Producers**
  - Farmers owning Marketing Co-ops
  - Artists owning Gallery Co-ops

Who Owns Co-ops

- **Workers**
  - Workers owning and managing their business
Who Owns Co-ops

- Consumers
  - Depositors owning Credit Unions
  - Tenants owning Housing Co-ops
  - Grocery Shoppers owning Food Co-ops

Co-ops and the Economy

- 29,000 co-ops in the US
- Representing over 100 million memberships
- More than 50% of farmers belong to co-ops
- Electric co-ops serve over 75% of US landmass, covering 37 million people
- Co-ops grew during the recession
Worker Coop Case Study: Island Employee Cooperative

Daniel Wallace, Program Developer in Sustainable Agriculture, CEI
October 15, 2014
CEI’s Agriculture and Food Systems Program

- Grow and expand viable farm and food businesses in Maine and connect to markets regionally in order to create livable-wage jobs and strengthen rural communities and working landscapes.

![Lending Trend Graph](image1)

### Lending Trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Farm</th>
<th>Infrastructure</th>
<th>Retail</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2011</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2012</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2013</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2014</td>
<td>41%</td>
<td>35%</td>
<td>22%</td>
<td>2%</td>
<td>100%</td>
</tr>
</tbody>
</table>

![Image of Group](image2)
- The Galley: 8,000 sq ft
- BCM: 13,000 sq ft
- V&S Variety, Hardware, Pharmacy
- Nearest “big” city
  - Bangor, 58 miles, 90 min drive, pop 32,817
- Primary competitors
  - Tradewinds, Blue Hill, 23 miles, 44 mins
  - Walmart, Ellsworth, 37 miles, 60 mins
Demographics

- **Stonington**
  - Pop: 1043, declining
  - MHI: $36,772 (ref Maine at $46,033)
  - Ave age: 50.1
  - Unemployment: 10.3%, seasonal

- **Deer Isle**
  - Pop: 1975, rising
  - MHI: $41,776 (ref Maine at $46,033)
  - Ave age: 51.6
  - Unemployment: 9.6%, seasonal

- The population of both towns DOUBLES during the summer
- Local economy: lobster fishing, arts, and tourism

Project Timeline

- May 2013 – TA providers approach owner
  - Coop conversion model
- June 2013 – First meeting with key employees
- August 2013 – Employee commitments
- December 2013 – Incorporate
- January 2014 – Sign purchase & sale agreement
- February 2014 – Complete application for finance
  - Business plan!
- June 11, 2014 – Closing
Key Elements

- Support of retiring store owner
- Technical assistance providers
  - Cooperative Development Institute
  - Independent Retailers Shared Services Cooperative
  - Accounting
  - Legal
- Employee Owners: time, patience, and drive

Finance Structure

- Seller financing - subordinated
- Inventory financing - wholesaler
- Plus three lenders: CEI, CFNE, and the Seller
  - Seller will be taken out by a national bank
- Worker-owner shares
Financing Details

- Class A (voting) and Class B shares
- Employee owner contribution
- Real estate valuation and business valuation
- 5 year TA contracts
- Financing against a going concern value made it hard to find conventional lenders

Benefit...

...to Former Owner
- Purchase price
- Community legacy
- 1042 rollover
- Reward employees

...to New Owners
- Wealth creation event
- Job protection
- Select management, participate in running the business
- Equitable share in company proceeds
Community Owned Coop Case Study: Renaissance Community Cooperative

Donna Leuchten, Director, UpLift Solutions
October 15, 2014
UpLift Solutions

- UpLift Solutions is a nonprofit Technical Assistance/Consulting provider helping bring food access solutions to underserved areas throughout the country.
- Founded by Jeff Brown, owner of 11 Philadelphia ShopRite supermarkets and a leader in the PA Fresh Food Financing Initiative who is nationally recognized as a thought leader in healthy food access.
- UpLift has provided development services/consulting to grocers, government, nonprofits, and CDFIs throughout the country.
- UpLift’s Mission: "Delivering entrepreneurial solutions that support underserved communities for the joy of a healthy life”

Renaissance Community Cooperative (RCC)
RCC Details

- "Our community-owned store, with the explicit mission of building community health and wealth, is here for you”
- Partners:
  - East Greensboro, NC Community
  - Fund for Democratic Communities (F4DC)
  - UpLift Solutions
  - Self Help
  - YWCA
- Interesting Project Elements
  - Partnership with Community Kitchen
  - Potential Qcare clinic in center

Finance Sources

- Equity
  - Membership
  - Grassroots fundraising
  - Grants from local and regional foundations
  - City of Greensboro economic development grant
- Sub Debt
  - Owner Loans (5 & 10 year terms)
  - Community Foundation of Greater Greensboro
  - City of Greensboro
- Senior Debt
  - CDFI flexible financing
Underwriting and Structuring Loans to Cooperatives

Christina Jennings
Executive Director, Northcountry Cooperative Development Fund
Underwriting and Structuring Loans to Cooperatives

Co-op Underwriting = Small Biz Underwriting+

Co-op Loan Structuring = Small Biz Loan Structuring+

Co-op Impact = Small Biz Impact+++
Underwriting Cooperatives

- Cooperative Underwriting
  = Small Business Underwriting + OGEE

  - Ownership
  - Governance
  - Equity
  - Expertise

Ownership

- Who are the members/owners?
  - Consumers
  - Workers
  - Producers
  - Multiple Stakeholders/"Hybrid"

- Assess Ownership
  - Are there enough members?
  - Will the members be “users”?
  - Are the members “invested”?
    - financially (equity, member loans)
    - in the cooperative structure
Governance

- Are there good governance practices?
  - How is co-op governed?
    • Who is on the board?
    • How is board elected?
  - Are there clear, established policies?
    • How are profits distributed? (patronage)
    • How do new members join?
    • What happens to equity if a member leaves?
  - Consumer food co-ops:
    • Well-established best practices
  - Worker co-ops:
    • Many different practices, but still resources

Assess Governance:
- Talk to more than one representative
- Read governing documents
  • Articles and by laws
  • operating agreement
  • policies
- Review minutes
  • board meetings
  • membership meeting
- Attend a board meeting
Equity

- Co-op Equity
  - Member Shares /Common Stock
    - Voting shares
    - No dividends
  - Preferred Stock
    - “C shares”
    - Dividends paid

- Member Loans
  - Subordinated debt / quasi-equity

Assess Equity:
  - Do members have a shared stake?
  - Is there enough equity?
  - Is there a plan to grow equity base?
  - Are there policies to protect equity? What are policies for equity redemptions? What are terms of member loans?
    - Check documents *and* what is promised
Expertise

- Assess business, sector and co-op expertise?
  - Management team
  - Board
  - Technical assistance providers and consultants
    • Legal
    • Accounting
    • Governance
  - Connected with other co-ops locally and nationally
    • Share best practices
  - Peer support
  - Using established best practices:
    • Co-op Metrics, Co-Co-Fist, etc.

Structuring Cooperative Deals

- Governance
  - Require governance training and TA
  - Monitor governance
    • Attend board or membership meetings
    • Review minutes
Structuring Cooperative Deals

- **Equity**
  - Ensure retention of equity
    - Limit equity payouts and redemption
    - Restrict member loan repayments
  - Plan for growth
    - Require a plan to build membership and raise equity

- **Collateral and Guarantees**
  - Are personal guarantees required?
    - Collateral shortfall
    - Ensure commitment
  - Are there alternatives?
    - Waive personal guarantees
    - *Several* (proportionate) guarantees
      - rather than *Joint and Several*
    - Time limited guarantees
      - Release when benchmarks met
      - Release after certain number of years
The Impact of Cooperatives

- Co-op Impact = Small business impact +++
  - Job creation: living wages, benefits
  - Community revitalization and wealth-building
  - Human Capital Development
    • Leadership development
    • Civic engagement

Agua Gorda Cooperative
Long Prairie, Minnesota

The Impact of Cooperatives

- Healthy Foods Financing Initiative
  - Community engagement
  - Access to Healthy Foods
    • Accessible membership
    • WIC
    • EBT
    • Store programs
  - Health and nutrition education
  - Support local, small farmers

Oneota Community Food Co-op
Decorah, Iowa
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