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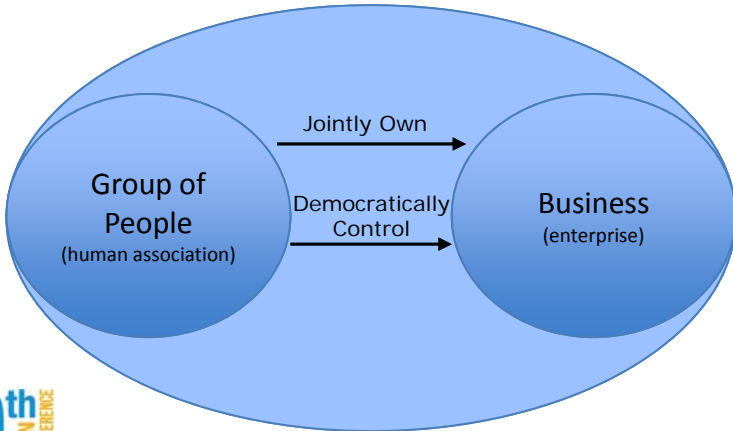
Cooperative Healthy Food Finance Models

Micha Josephy, Cooperative Fund of New England




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What is a Co-op?

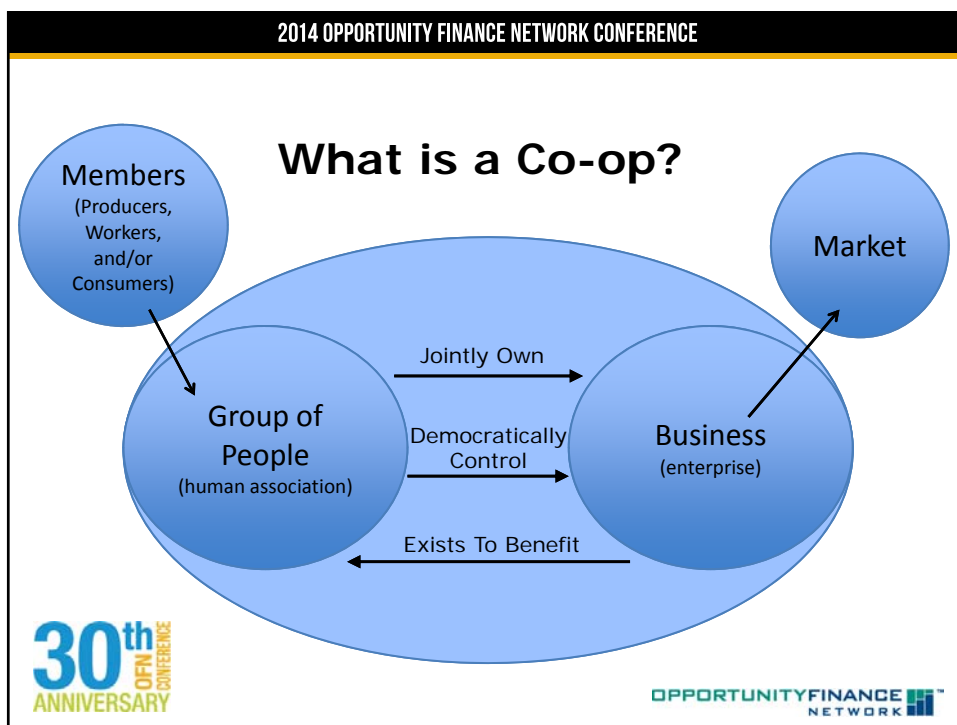
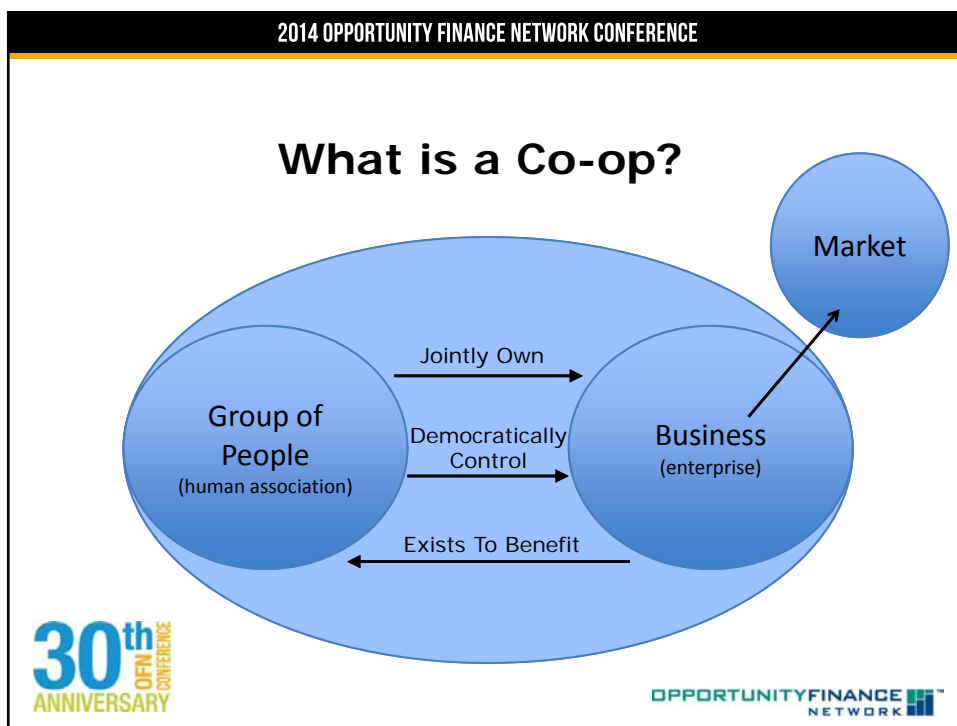


```

graph LR
    subgraph Coop [ ]
        direction LR
        A((Group of People  
(human association)))
        B((Business  
(enterprise)))
        A -- "Jointly Own" --> B
        A -- "Democratically Control" --> B
    end
    
```







Why Start a Co-op?

- Cost
- Control
- Community

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Comparison of Co-ops to Other Business Models

	Sole Proprietorship	Cooperatives	Public Companies
Shared Risk/ Reward	No	Yes	Yes
Local Ownership	Generally	Generally	No
Control by Direct Stakeholders	Yes	Yes	No
Economies of Scale	No	Yes	Yes
Power Distribution	100% Owner	1 Person : 1 Vote	1 Dollar : 1 Vote
Basic Source of Equity	Proprietor	Members	Stock Sales

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Who Owns Co-ops

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



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Who Owns Co-ops

- Workers
 - Workers owning and managing their business



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Who Owns Co-ops

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



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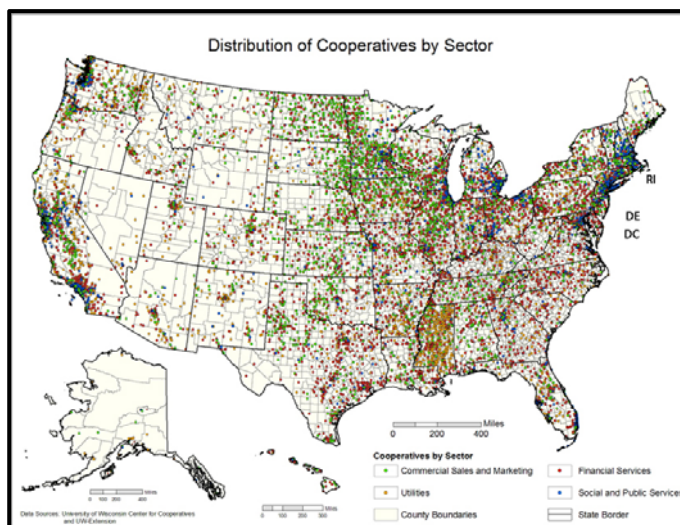
Co-ops and the Economy

- 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

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Worker Coop Case Study: Island Employee Cooperative

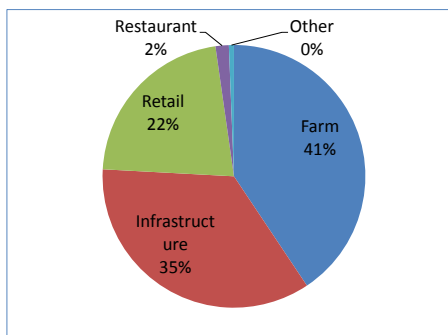
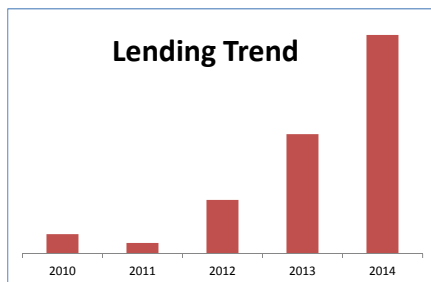
Daniel Wallace, Program Developer in Sustainable Agriculture, CEI
October 15, 2014

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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.



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Capital for Opportunity and Change

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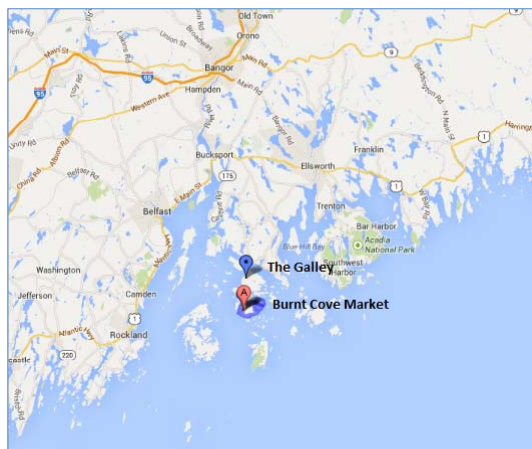
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- The Galley: 8,000 sq ft
- BCM: 13,000 sq ft
- V&S Variety, Hardware, Pharmacy
- Nearest "big" city
 - Bangor, 58 miles, 90 min drive, pop 32,817
- Primary competitors
 - Tradewinds, Blue Hill, 23 miles, 44 mins
 - Walmart, Ellsworth, 37 miles, 60 mins

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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



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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



Capital for Opportunity and Change



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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



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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





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Community Owned Coop Case Study: Renaissance Community Cooperative

Donna Leuchten, Director, UpLift Solutions
October 15, 2014

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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"

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Renaissance Community Cooperative (RCC)



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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



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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



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Underwriting and Structuring Loans to Cooperatives

Christina Jennings

Executive Director, Northcountry Cooperative Development Fund

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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 + + +

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Underwriting and Structuring Loans to Cooperatives



Northcountry
Cooperative
Development Fund

Northcountry Cooperative Development Fund

- Specialized, national CDFI loan fund
- Cooperatively owned by 170+ co-ops in 30 states
- Financing cooperatively owned small businesses and affordable housing
- 35 years of experience
- \$39 million invested in co-ops
- Nearly 1,000 cooperative projects financed
- More than 85% in low-income communities

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Underwriting Cooperatives

- Cooperative Underwriting
 - = Small Business Underwriting + *OGEE*
 - Ownership
 - Governance
 - Equity
 - Expertise

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Seward Community Co-op
Minneapolis, Minnesota



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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

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Renaissance Community Co-op
Greensboro, North Carolina



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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

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Governance

- 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



Hunger Mountain Co-op
Montpelier, Vermont

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Equity

- Co-op Equity
 - Member Shares /Common Stock
 - Voting shares
 - No dividends
 - Preferred Stock
 - “C shares”
 - Dividends paid
- Member Loans
 - Subordinated debt / quasi-equity



Mandela Foods Cooperative
Oakland, California

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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



Rainbow Grocery
San Francisco, California

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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.

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Structuring Cooperative Deals

- Governance
 - Require governance training and TA
 - Monitor governance
 - Attend board or membership meetings
 - Review minutes



Wheatsville Co-op
Austin, Texas

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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

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East Aurora Cooperative Market
East Aurora, New York



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Structuring Cooperative Deals

- 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

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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

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Agua Gorda Cooperative
Long Prairie, Minnesota



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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

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Oneota Community Food Co-op
Decorah, Iowa



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Contact Info

- **Christina Jennings, Executive Director**
 Northcountry Cooperative Development Fund www.ncdf.coop
 Phone (612) 767-2114 christina@ncdf.coop
- **Daniel Wallace, Program Developer, Sustainable Agriculture**
 CEI www.ceimaine.org
 Phone (207) 535-2916 dwallace@ceimaine.org
- **Donna Leuchten, Director of Sustainable Food Systems**
 UpLift Solutions www.upliftsolutions.org
 Phone (856) 471-2035 Donna.Leuchten@upliftsolutions.org
- **Micha Josephy, Program Manager**
 Cooperative Fund of New England www.cooperativefund.org
 Phone (617) 910-8065 mjosephy@cooperativefund.org
- **Alison Powers, Program Officer**
 Capital Impact www.capitalimpact.org
 Phone (703) 647-2369 Apowers@capitalimpact.org

