

Rural COOPERATIVES

May/June 2017

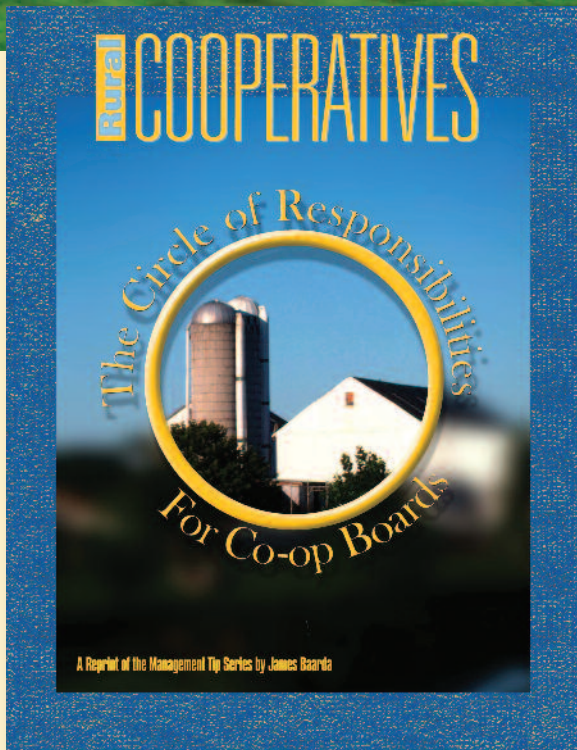


**GROWING
A NEW
GENERATION
OF CO-OPS**



The Buck Stops Here

The Circle of Responsibilities for Co-op Boards



USDA Cooperative Information Report (CIR) 61

Increased scrutiny of board actions is not always accompanied by better information about exactly how directors should perform their many duties. This series of articles provides a practical guide and underlying principles for actions board members can take to improve their service to cooperatives. By James Baarda; 16 pages.

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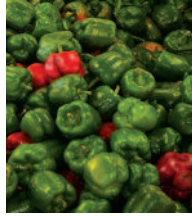
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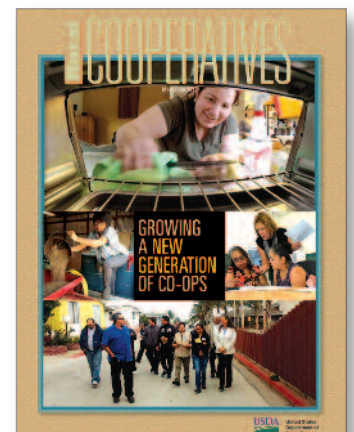
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ON THE COVER: The California Center for Cooperative Development (CCCD) is committed to creating jobs and economic progress through the formation of co-ops. Clockwise from top: Isabel Fernandez of Yolo Eco-Clean Cooperative at work; CCCD Director Kim Coontz explains co-op business practices during a workshop; touring the Santa Elena farmworker housing cooperative during the "Co-op Convergence"; CCCD facilitator and farmer Mai Nguyen pours grain onto an air-screen cleaner. See pages 16-27.



Learning from Food Hub

Closures



Sorting bell peppers at the now-closed Pilot Mountain Pride food hub in North Carolina. Expanding the operation to include a retail business, for which its staff had little experience, contributed to the closure of the hub.

Despite initial success, lack of a viable business model contributed to hub's failure

**By James Barham,
Sasha Feldstein
and James Matson**

Editor's note: Barham is a food systems specialist with the USDA Rural Business-Cooperative Service; Feldstein was formerly a research fellow with USDA Rural Business-Cooperative Service; and Matson is a consultant at Matson Consulting. This article is excerpted from the upcoming report "Running a Food Hub, Volume 4: Learning from Food Hub Closures." Another case study will be presented in the next issue of Rural Cooperatives.



Many studies have been conducted that focus on successful food hubs. USDA is looking at the other side of the coin to fill a knowledge gap by using national data and case studies to draw general lessons for why food hubs fail.

By identifying lessons learned from former food hubs, we hope this information will assist new and existing food hubs in addressing challenges, leading to success.

Six food hub case studies were conducted across the United States to examine reasons for closure. In this article, we look at the case of Pilot Mountain Pride.

USDA defines a food hub as a “business or organization

the-middle” farmers who lack the capacity to meet the specific volume, quality and consistency requirements of larger scale buyers, such as retailers, wholesale distributors, and institutions.

An increasing number of individuals, organizations, nonprofits, businesses and cooperatives are seeking to occupy this space and meet the rapidly growing demand for local food. There are more than 350 hubs in the United States, three-quarters of which were established during the past decade.

It is important to note that four of the six hubs studied by USDA opened their doors during the 2008 recession.

The food hub industry demonstrates very high survival rates, which have been close to 90 percent since 2005.

that actively manages the aggregation, distribution and marketing of source-identified food products, primarily [coming] from local and regional producers...” The overall goal is to “strengthen their ability to satisfy wholesale, retail and institutional demand.” Food hubs play an important role in the food system by meeting the needs of small and “ag-of-

However, external factors were rarely the main reason for closure. Instead, internal management and board governance issues were far greater determinants of food hub success or failure. Food hub leaders, as well as others who worked closely with the food hub, provided much of the language and information for the respective case studies.

In addition to reflecting on their own lessons, representatives of each of the food hubs gathered to identify common themes. Therefore, this report not only provides information that is specific to the context of new and existing food hubs, but it also provides general insights that may be applied to a variety of cases.

Building and sustaining a food hub is difficult. A successful food hub relies on several moving parts, including coordinating with producers, aggregating, processing and storing product, then distributing it to buyers. If one piece fails, the whole operation can fail.

Additionally, food hubs must constantly balance financial viability with other positive economic, social and/or environmental impacts within their communities. Maintaining that balance often leaves little room for error. Even though food hubs must be extremely meticulous, which requires rigid time management, the industry demonstrates very high survival rates, which has been close to 90 percent since 2005.

While most of the food hubs studied for this report were not incorporated as cooperatives, most can be viewed as “quasi cooperatives,” in that they share similar business structures, such as collective marketing and supply-chain

Pilot Mountain Pride LLC

Location: Pilot Mountain, N.C.

Business structure: Not-for-profit LLC

Business model: Wholesale distribution, retail space and distribution to CSAs

No. of producers served: ~60

Financing: Public and private grants

Sales growth: \$300,000 in 2010 to less than \$125,000 in 2013

Established: April 23, 2010

Closed: January 2015

Pilot Mtn. Pride formed as producer-driven nonprofit

transparency, along with similar cooperative values, such as shared risk and the equitable distribution of benefits. Many of the lessons learned in the course of this study may prove beneficial to co-ops and related small businesses.

Initial success surpasses expectations

Pilot Mountain Pride was established to provide farmers within 50 miles of Winston-Salem, N.C., with access to retail, service and institutional food markets. It was funded through the Surry County Economic Development Foundation. Pilot Mountain Pride was organized as a producer-driven, not-for-profit LLC in 2010, primarily

agriculture) and worked with another eight or nine CSAs on a more limited basis.

Even though Pilot Mountain Pride had a wide and varied customer base, sales dropped to \$250,000 in 2012 as the food hub struggled to keep up with demand.

Despite the slight drop in sales, the hub expanded to open a retail space in addition to distribution to customers. Unfortunately, the retail business lasted for less than a year, opening in June 2013 and closing in February 2014. Bad weather contributed to the closure of the retail outlet, with North Carolina experiencing heavy rains early in the growing season and temperatures that were unseasonably cold. Crop yield was poor that year, and there was not enough produce

The original business model — which called for Pilot Mountain to maximize farmer profits by returning 80 percent of revenue to the producers — proved unsustainable.

focused on the aggregation, packing, storing and wholesale distribution of fruits and vegetables to restaurants, colleges and grocery stores.

Under the supervision of the foundation, Pilot Mountain was led by a board of directors, with a staff of one salaried, full-time employee, one part-time worker and several additional workers and volunteers who assisted during peak season with packing and moving product through the food hub.

Funds for Pilot Mountain Pride's start-up were provided by Surry County and numerous other business partners, as well as by local, state and federal government agencies that provided additional grants. In its first year, Pilot Mountain expected to have \$30,000 to \$50,000 in sales. However, gross sales for 2010 soared to almost \$300,000. To meet this unexpected demand, Pilot Mountain quickly scrambled to upgrade its infrastructure and purchased additional equipment for the large volume of produce.

The food hub consisted of a 12,000-square-foot warehouse, including 6,000 square feet of forced-air cooler space, and two 20x12-foot standing coolers. To handle smaller scale local deliveries to customers, the facility owned a 27-foot refrigerated box truck, but it also worked with area trucking companies to handle larger loads.

Challenges along the way

The hub's customer base grew to include three grocery store chains, two colleges, several restaurants and an email list of 1,500 customers who received weekly information about the food hub's product availability. The food hub also regularly supplied two CSAs (community supported



One of the factors that contributed to the demise of Pilot Mountain Pride was an over-reliance on grants to finance its start-up costs.

coming in to keep the retail space stocked.

Another reason it failed was poor preparation for operating a retail business, which was an entirely new business area for Pilot Mountain Pride's leadership. As a result, sales declined to \$125,000 in 2013 and the store created additional expenses that could not be covered. Other costs also mounted, leading to a continual decrease in sales and revenue.

In the original business model, Pilot Mountain attempted to maximize farmer profits by returning 80 percent of revenue to the producers, leaving only 20 percent to pay for labor and other operational costs. Unexpected costs, however, made keeping operations within those allocation margins very difficult. Packaging costs alone were substantially higher than expected, as much 250 percent above projections, according to some sources.

Decision to close

Cost increases, combined with a decrease in sales, ultimately led Pilot Mountain Pride to close its doors. The reliance on grant money and the lack of cash reserves by the second and third years of operation did not allow it to offset the sales slump nor the cost of operating a retail space.

The hub had difficulty with some grant funders and thus did not receive some money it had expected. The small portion of revenue retained by the hub to cover its operations was ultimately not enough to sustain the business.

Pilot Mountain Pride decided to close in January 2015, before the start of that year's season, to minimize losses and avoid leaving producers without a distributor midway through the season.

Lessons Learned

■ *Reliable income and cash reserves are necessary for growth and dealing with unexpected setbacks.*

While first year sales exceeded expectations and the majority of startup funding was provided by grants, Pilot Mountain Pride faced problems of inadequate cash reserves and planning for scale. After a successful first year, increased costs were incurred for additional infrastructure and the retail store front. When sales dropped, and lacking financial reserves, the added costs could not be met.

Money that is "promised" through grants or other sources may not always come through, so more reliable sources of income are needed. The 20-percent share taken by Pilot Mountain Pride to cover operating expenses had to also pay for packaging and freight, a cost which the farmers probably should have shared in.

■ *The food hub must be prepared for day-to-day operations and use a sustainable business model.*

Pilot Mountain Pride was established by a county foundation, not by farmers themselves, nor by an organization familiar with the task of organizing the aggregation and distribution of produce. This left the food hub ultimately unprepared for the inevitable problems and challenges associated with production, growth and expenses.

A business model with a larger percentage of sales going to the hub, or with other ways to offset shipping and packaging costs, may be needed for business

sustainability and growth. In addition, there must be clear procedures, responsibilities and guidelines established at the beginning of operation for both the producers and the hub so that all parties are aware of their roles and obligations to the project.

■ *Grant money is not always sufficient, or reliable, to guarantee sustainability.*

Pilot Mountain Pride depended heavily on grants to meet startup costs. While buoyed by better-than-expected first year sales, the grant money base was not enough to offset the steep sales declines the next year or to provide for the move into the retail market. Problems can arise when anticipated grants are not received and thus should not be relied on. Food hubs need to be prepared for an unexpected drop in grant funding.

■ *Greater product variety allows for more avenues of income throughout the year.*

The decrease in sales due to heavy rain and cold in 2013, leading to poor crop yields, could have been offset by more diversification in product lines, offering a wider range of items for different seasons. Therefore, if one area was impacted, the damage could be partially made up during the rest of the year. Offering value-added products and having the capacity to do limited processing could increase the range of products and extend the growing season. ■

Despite recent challenges, Capper-Volstead continues to provide ag co-ops with antitrust protection

Still the Legal Bedrock

By W. Todd Miller and Lucy Clippinger

Editor's note: Miller and Clippinger are attorneys with the Baker & Miller PLLC law office in Washington, D.C., which focuses on antitrust cases. The law office provides legal counsel to the Dairy Farmers of America cooperative in one of the cases discussed below. The views expressed in this article are the authors' own, and do not necessarily reflect those of USDA or its employees. It should not be considered as legal advice; cooperatives should consult with legal counsel for questions about antitrust matters related to their business.



A large percentage of the agricultural products produced by farmers in the United States are marketed by, or through, cooperatives. But because cooperatives are combinations of what might be viewed as competitors in the

production and sale of agricultural products, some may wonder how a cooperative can operate in light of laws that prohibit competitors from working together to set prices.

The Capper Volstead Act (the "Act") provides cooperatives with their primary exemption from federal antitrust laws, allowing agricultural producers to work together to improve their economic position. This article discusses the Act and explores how it remains relevant to agricultural producers today.

Overview of U.S. antitrust laws

The principal U.S. antitrust laws were established when Congress passed the Sherman Act in 1890 and the Clayton Act in 1914. These laws reflect a commitment to a free market. They promote independent action by businesses that compete with each other by prohibiting agreements among

competitors to fix prices, to allocate markets or customers, or to boycott customers or suppliers.

These laws reflect the belief that markets in which businesses that are competing on price and quality of services will produce better products and deals for consumers. In certain circumstances, of course, competitors can join together to create legitimate joint ventures. The creation of the Visa and similar credit card networks are good examples of such ventures, where banks, which are otherwise competitors, joined together in a joint venture to offer a new product (credit cards).

U.S. antitrust law also prohibits monopolization and attempted monopolization. Monopolization occurs when a business with substantial market power engages in business practices designed either to exclude competition or to gain substantial market power in the first instance. While gaining a very

substantial share of the marketplace through invention or excellent marketing is not illegal, the offense of monopolization focuses on unfair business practices that unnaturally allow a competitor to gain or maintain such a dominant market share.

Antitrust laws allow legal actions by people allegedly injured by a violation of the laws, as well as challenges by the government. Thus, as compared to many other jurisdictions, there is a strong and long tradition of enforcement of the laws by private parties (usually customers or competing businesses) in addition to enforcement by the government.

Agricultural exemptions to antitrust laws

The turn of this century brought renewed interest in the Capper-Volstead Act, which soon turns 95 years old, and the other agricultural exemptions to antitrust laws. Much of this attention could be considered negative to the Act. However, the Act remains strong and is an important feature of the U.S. agricultural landscape.

Before we turn to developments of the past decade, we will look at the legal framework.

When Congress passed the Clayton Act in 1914, it included a provision (Section 6) that specifically exempted the creation of farmer cooperatives and

agricultural products.

Section 6 ultimately represents a broad public policy statement: the Supreme Court has explained that, with regard to cooperatives, “[b]y allowing farmers to join together in cooperatives, Congress hoped to bolster their market strength and improve their ability to weather adverse economic periods and to deal with processors and distributors.”

In recognition of some of the shortcomings of the Section 6 exemption, in 1922 the exemption was expanded by the Capper-Volstead Act, allowing exemptions to apply to cooperatives formed as corporations. That Act specifically allows persons producing agricultural products as “farmers, planters, ranchmen, dairymen, [or] nut or fruit growers” to “act together in associations” in “collectively processing, preparing for market, handling, and marketing . . . such products.”

Thus, the key questions generally become: (1) whether the cooperative is properly made up of farmers; and (2) whether the cooperative is engaged in activities permitted by the Act.

Membership considerations

The Capper-Volstead Act requires that the cooperative’s members be engaged in the production of agricultural products. Beyond that, the Act does not define “farmer,” “planter,”

Court has pointed out: “Congress did not intend to extend the benefits of the Act to the processors and packers to whom the farmers sold their goods...”

Of course, one may engage in mental gymnastics in determining whether a person is a “processor” as opposed to a “farmer.” Statements by the U.S. Department of Justice regarding Capper-Volstead immunity require the potential member to bear “a substantial part of the risk of loss traditional to agricultural production.” In a decision that focuses on the poultry industry (but has teachings that can be applied more broadly), the Supreme Court explained that even someone who holds title to a flock of broiler chickens does not qualify as a farmer if he does not own a breeder flock, hatchery or grow-out facility where the flock to which he has title is raised.

A more recent decision, which appears to have Capper-Volstead Act proponents unduly alarmed, suggests — in discussing egg farmers who own some chickens — that one must own (or undoubtedly lease) a farm to qualify as a farmer. However, that passing reference is intertwined within a broader discussion that found that the entity in question was really “focused on sales and marketing and contracted with third-party farmers to produce eggs on [the entity’s] behalf.” In the end, the chickens owned by the entity were not enough to overcome the fact

By allowing farmers to join together in cooperatives, Congress hoped to bolster their market strength and improve their ability to weather adverse economic periods and to deal with processors and distributors.

labor unions and collective activities by farmers and workers from the general operation of the antitrust laws. Section 6 responded to some earlier Supreme Court decisions holding that workers and farmers were illegally price-fixing under the Sherman Act when they joined together to market their labor or

“ranchman,” “dairyman” or “nut or fruit grower.” While it is widely thought the terms are to be read broadly, one thing is abundantly clear: the Act is intended to exclude processors and distributors of agricultural products from cooperative membership. As the U.S. Supreme

that it was primarily a distributor of eggs.

Suffice it to say that this will remain an area of uncertainty, but any inquiry about whether an entity is characterized as an “agricultural producer” or something else will be fact intensive. Of course, the greater the entity’s income

Capper-Volstead is grounded in a public policy that a farmer should not be placed in the awkward, and perhaps economically untenable, position of having to compete against a neighbor in order to sell the fruit of his or her labor.

is dependent on traditional agricultural production, as opposed to the distribution or processing of such production, the more likely it is that the entity would be found to be an agricultural producer.

Permissible activities

The next major inquiry is whether the cooperative is engaged in activities that are permissible under the exemptions. Not surprisingly, this is also an area of some uncertainty.

Section 6 of the Clayton Act provides that the “operation” of the cooperative is not forbidden by the antitrust laws, but it leaves exactly what that means open to question. The Capper-Volstead Act, however, provides that agricultural producers could act together in “collectively processing, preparing for the market, handling and marketing” the agricultural products of the producers.

To be sure, the activities encompassed by these terms are broad and include a wide variety of functions, contracts and agreements to further the cooperative’s basic goal of helping its members sell their production on favorable terms. As one court has noted, the term “marketing” itself is very broad and includes “among others, buying, selling, storing, transporting, standardizing, financing, risk bearing and supplying market information.” It is also clear that it includes the setting of prices.

The Capper-Volstead litigation that has dominated the industry during the past decade is centered on the question of the extent to which the cooperatives can engage in activities that may affect the production of the agricultural product. The cases involve the egg, mushroom, potato and dairy industries. Plaintiffs allege in each case that the cooperatives involved have engaged in

“production restraints,” which the plaintiffs contend are not “marketing” activities and are otherwise outside the scope of permissible activities under the Capper-Volstead Act.

At this point, only the *potatoes* case — which revolved around a co-op that attempted to improve depressed crop prices through reduced plantings — has addressed the scope of permissible activities under the Capper-Volstead Act, but this litigation is now apparently settled. In this case, the court issued an “advisory” opinion that explained that coordination of pre-planting product volumes is outside the scope of permissible “marketing” under the Act.

While we do not believe Capper-Volstead has been weakened by recent court decisions, some in the agricultural cooperative community are concerned about them — especially regarding the instance of a cooperative that may not even be aware that it has members who would not qualify as “producers” under the law, which could open it to litigation from a competitor.

Two federal judges in Pennsylvania have held in the last few years that even a cooperative’s good-faith belief that all of its members qualified under the Act did not keep the cooperative from losing its exempt status where it included non-producer processor or

Marketing agencies in common

A discussion about the Capper-Volstead Act would not be complete without a mention of one of the more unusual features of the statute. The Act specifically allows cooperatives to form “marketing agencies in common.” This allows cooperatives to join together to find ways to more effectively market their members’ agricultural products.

This extends to price and customer negotiations. Absent Capper-Volstead Act protection, it would be difficult to defend such agencies from an antitrust challenge. ■

The opinion also suggested that acreage reductions, production restrictions and collusive crop planning are outside the protections of the Act.

The conduct being challenged, however, involved an agreement to reduce overall supply by 10 percent; farmers who did not reduce production were penalized. This was monitored through GPS and aerial photography. There were other “supply management” techniques at issue, confirming that this was a wide-ranging program to ensure that farmers reduced the overall supply of potatoes.

distributor members. However, the only federal Court of Appeals to rule on this issue held that, at least where the non-producer members were not processors or distributors, a cooperative could still qualify for immunity if it mistakenly had a small number of non-farmer members. This underscores the need for cooperatives to be vigilant on this critical issue.

At a minimum, each cooperative should take care in signing up members and make efforts on a regular basis to check on their producer status. Many cooperatives have bylaws or similar

rules that automatically expel from membership any person who ceases to maintain producer status. These efforts are important to protect, as much as possible, the cooperative's overall status as a farmer organization.

Co-ops still free to set prices

So where does that leave the scope of the activities protected by Capper-Volstead immunity?

Putting aside production-side issues, the immunity remains fully intact and cooperatives remain free to set the prices for, and to otherwise engage in, the enumerated activities of their members' agricultural production. Regarding production issues, the basic question is: does the proposed conduct really constitute a "restraint" on production, or is it merely activity that may have an effect on production? The

another (e.g., soybeans) may have implications for a member's planting decisions.

Thus, an appropriate litmus test — wholly consistent with the legislative history surrounding the Act — analyzes whether the production decision is left to the farmer or has been undertaken by the cooperative. If the farmer is free to decide how much to produce, subject to whatever appropriate incentives or disincentives that may exist that may impact that decision, then it is hard to see how one could properly sustain a challenge to that conduct.

A world without Capper-Volstead

The Capper-Volstead Act remains an important feature of the agricultural economy. It helps ensure that agricultural producers can join together

recognition, and improved analysis, of joint ventures. Most full-service cooperatives could be defended on the ground that they represent a joint venture of the agricultural producers.

But there are still key differences between a world in which Capper-Volstead exists and a world without it. It is widely recognized that a cooperative may "obtain a complete monopoly, 100 percent of the product involved," provided that it does so by the voluntary action of the agricultural producers. A joint venture without an antitrust exemption — such as Capper-Volstead — that includes all competitors would be challenged as being "over-inclusive."

Moreover, the Capper-Volstead Act protection is not limited to "full service" cooperatives; some cooperatives only bargain for price. Without some other integration of activities by the members, the joining together merely to set prices would, absent Capper-Volstead protection, be a very risky — perhaps criminal — proposition. And the protection extends to marketing agencies in common, which are often used to help better the economic bargaining position of the member cooperatives (and, hence, the producers who are members of those cooperatives).

As one contemplates the importance of the Capper-Volstead Act and related agricultural exemptions, one should consider that there was a strong public policy reason for this treatment. The exemption for agricultural cooperatives — much like the exemption for labor unions — was grounded in a public policy decision that a person who operates a farm for a living should not be placed in the awkward, and perhaps economically untenable, position of having to compete against a neighbor in order to sell the fruit of his or her labor. And while the Act has several areas of uncertain application, this is common in almost every area of the law and is not a reason to abandon Capper-Volstead. ■

Act does not offer "absolute immunity"

While the Capper-Volstead Act provides broad protection, it is not an absolute immunity from any antitrust challenge. The exemption may be lost where an otherwise exempt agricultural cooperative has entered into an unreasonable agreement with a non-protected party (e.g., a processor or distributor) or engaged in predatory conduct.

One court explained that such "predatory conduct or tactics" include "coerced membership, boycotts, picketing, bad faith harassment or discriminatory pricing." ■

former does create some risk of attracting problematic litigation; the latter, while it could still attract litigation, should be defensible.

But even the cooperative's consideration of the production issues offers continued reason for confidence in the durability of the Act. Obviously, merely labeling something as "production" or "marketing" does not tell the whole story. There are many marketing decisions that will affect production — a cooperative's decision to emphasize the marketing of one of its members' crops (e.g., wheat) over

and improve their economic position through cooperatives and helps lower their costs of operation because those cooperatives can work together in ways to achieve efficiencies, all while minimizing the risk of an antitrust lawsuit.

But what would a world without Capper-Volstead look like?

Under modern antitrust law, the mere formation or operation of a full-service cooperative would not likely be found to be illegal. As compared to the time when the Capper-Volstead Act was passed, there is today a greater

Saving the Last Grocery Store

Galvanized by a blizzard, people of a rural Colorado town unite to reopen store

By Lorraine Armstrong

Editor's note: Armstrong is a graduating senior from Eastern Mennonite University in Harrisonburg, Va., who recently completed an internship with the USDA Rural Business-Cooperative Service. This article is based on interviews conducted by the author and on information presented during a webinar, "When the Last Grocery Store Closes," conducted by Marnie Thompson, co-manager of the Fund for Democratic Communities (F4DC), and David Proctor, director of the Kansas State University Center for Engagement and Community Development.



Walsh is a small farming and ranching community on the high plains of southeastern Colorado. As with many rural towns, it has for many years been struggling with a declining and aging population. In 2010, the U.S. Census counted 546 residents, down from 723 in 2000.

So when the town's only grocery shop — the Walsh Community Grocery Store, built in 1928 — closed in 2006,

it was a severe blow to the future of the community. The store's closure meant people had to travel at least 35 miles one way to buy groceries and other essentials.

In addition to being the only place in town to buy groceries, the store had also been an important community gathering place and a source of tax dollars.

"Rural grocery stores function as an anchor of community life through creating identity, diversity and social relationships," says David Proctor of the Center for Engagement and Community Development at Kansas State University. Without these core sustaining functions, rural communities usually experience a sharp decline, socially and economically, he notes. The community then becomes a less desirable place to live, and many residents become depressed about their future.

When a severe blizzard hit Colorado in December 2006-January 2007, the commute to buy food became impossible for days on end as huge snow drifts caused prolonged road closures. That was the last straw for people who had already grown weary of the long commute for food. This crisis underscored how, for rural people, having a local grocery



Bottom-up development

Walsh residents banded together to find a way to reopen the store. After conducting a business feasibility study, a committee of townspeople held conversations with Colorado State Bank, Southeast Colorado Power Co., the U.S. Small Business Administration and U.S. Department of Agriculture to discuss the benefits of forming a corporation — in which community members would own the majority of shares — to operate the grocery store.

A community stock drive was launched, offering shares in the store for \$50. Community members rallied behind the new business, investing about \$200,000 within just a few months. At the end of 2016, the store had 4,060 shares and 312 shareholders.

The Southeast Colorado Power Association also provided a zero-interest, 10-year loan for \$140,000. Shareholders were motivated to invest in a business that was not only critical to the town's future, but was structured to meet the specific needs and desires of the people of the area.

The store re-opened in June 2007. Being under community ownership created a strong sense of accountability to the shareholders, and the store was soon able to attract a strong customer base, generating \$1 million in sales in its first year.

The store's board of directors consists entirely of community members, but each comes from a different walk of life. One is the owner of a parts/feed/farm supply store, one is a kindergarten teacher, one is a farmer, one is retired from a baking background while the other director works at the county clerk's office. Each one brings his or her own unique perspective to the store.

Because of its remote location, the people of Walsh “realize the importance of their neighbors, because while our neighbors might need us today, we are all well aware that we may need them tomorrow,” says store General Manager Donald Rutherford. “So we have a culture of helping others.”

The store draws business from a large area around Walsh. “Farmers drive 20 miles or more to get to Walsh,” says

Rutherford. “Driving to the next town over would be a huge burden.”

When small towns create their own resources without the help of large investors or big corporate entities, it is “bottom-up development,” says Anil Rupasingha of the Federal Reserve Bank of Atlanta. When people favor a locally owned rural businesses over big, outside corporations, Rupasingha says it “leads to a diversified economic structure, which keeps economic and political power in the local community,” creating an improved quality of life.



Finding enough good workers to staff the store has been a major challenge, says store Manager Donald Rutherford (left), seen here at work in the meat department with Jamie Lowe, a shift leader and meat cutter. Lower: A spring snow storm in late April creates a slushy parking lot at the store. Photos courtesy Walsh Community Grocery Store

store is not only a great convenience, but can be a necessity.

“The snowstorm really made our residents realize how much a store was needed,” says Judy Bezona, a founding board member of the Walsh Community Grocery Store.

Rutherford agrees. “Not only does the grocery store supply the community with food, but also with tax revenue.” Those tax dollars provide the community with funds needed to repair water lines and streets as well as financing many other civic needs. But the store still faces many challenges.

Challenges facing rural grocery stores

There are seven major challenges facing rural grocery stores, according to surveys compiled by the Center for Engagement & Community Development at Kansas State University as part of its Rural Grocery Initiative (RGI). Below is how the Walsh grocery deals with them.

1 Competition with “big box” discount stores

Walsh area residents say they would prefer to commute 15 miles for fresh, local produce — even though it might cost a bit more — rather than driving 50-70 miles to get the most “bang for their buck” at a big box store. “Some people think they can be [more frugal] at larger stores, but when comparing [all the costs], that is not always true,” says Judy Bezona, of the Walsh store’s board. Shoppers need to also calculate costs such as their mileage, wear and tear on their vehicle and the value of their own time.

This is perhaps one area where remoteness helps. “One advantage we have in regard to competition with big box stores is our remoteness,” adds Rutherford. Quite simply, it lacks the population base required to attract a big box store.

2 Operation costs

The Walsh Community Grocery Store understands the importance of cost control through the use of sound business practices. For example, it requires the same amount of electricity to power the store on a high-sales day as on a slow-sales day. The store counters this challenge by controlling costs in other areas, such as “reducing capital in excessive inventory,” says Rutherford. This reduces staff hours needed to manage inventory and reduces losses to spoilage and damage.

“Our neighbors might need us today [and] we may need them tomorrow. So we have a culture of helping others.”

3 Labor Issues

Labor has been a big concern in such a small community with an aging population. “Labor has been the biggest struggle I have had to face,” says Rutherford. The available pool of workers is limited, and workers are aware of that, making it harder to motivate some of them.

“I try to minimize issues with labor by being flexible while having the least minimum employee coverage needed,” Rutherford says. He offers “more positive encouragement for a job well done rather than consistently reprimanding for a job poorly done.” Workers get more days off than the industry average and qualify for employee discounts.

“The current team is great and has become community focused while understanding that their work is vital” to the town’s survival, Rutherford adds.

4 Lack of Community Support

About 3,252 people are needed in a community to maintain a successful rural grocery store, Jon Bailey writes in *“The Rural Grocery Stores: Importance and Challenges.”* Currently, the Walsh community only has about 16 percent of that “necessary” population. Based on that calculation alone, the Walsh Community Grocery Store would surely falter. But there are many other factors that keep rural stores afloat. Rutherford says that about 70 percent of the community’s grocery needs are being purchased at the store, which helps to compensate for the small population base. “As long we continue to encourage customer input, do our best to provide quality products at a reasonable price and seek improvements, we will continue to receive community support.”

5 Low sales value

Because the entire town is dependent on one grocery store, sales may seem to be booming. However, attaining profitability continues to be a challenge. “Since a portion of all sales goes to cover fixed costs, we do have a bare minimum sales level [to meet], and we are not much over that.”

Because of the small size of the community, Rutherford stresses the need to not “get frustrated with low sales,” while striving “to find ways to increase sales and profit margins without inflicting harm to our customer base.” Being aware of supplier discounts and passing on a portion of the discounts to members encourages customers to buy greater volumes, he says.

6 Governmental regulations and taxes

“Some businesses create unnecessary hassle and expense by quibbling over details with government regulators,” Rutherford says. Getting into disputes in these areas takes time away from the services the grocery store needs to provide to the community. Even though some regulations are burdensome for a business, Rutherford believes they were enacted with the best interest of the community at heart. By complying with them, he says it serves the best interests of the members.

7 Meeting minimum supplier buying requirements

“Thus far, this not been a problem for us,” Rutherford says. Creating partnerships with suppliers has helped. “One of our suppliers reduces its sale requirement to half during the winter months...so this is how it helps us.”

Sparking social and economic change

Without the grocery store, Walsh would likely be a vanishing rural town. “The big difference [when comparing Walsh to other stores] is that we balance the need for profit with the need of the community to have access to affordable groceries,” Rutherford says. “A sole proprietor might not be content with the small profits we have. As long as we have enough profits to continue providing groceries to the community for the long run, we can be content in the short run.”

The emphasis on community service has guided the store when dealing with all of the challenges. Walsh Community Grocery Store is playing a vital role in helping to save the town, based on its commitment to civic duty rather than financial gain.

“It would be sad indeed if the people who invested so much in the community in the past decades were forced to leave their homes because the community failed to provide basic groceries.”

As to the store’s future: “I see a lot of potential,” says Rutherford. “I took the job because the community matters to me and I want to see the store succeed. With support of the community and our team, along with a lot of hard work, we will create substantial improvements.” ■



Rutherford helps load groceries for customer Julie Tate.

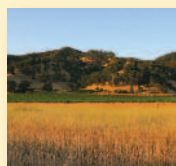
E. Kim Coontz, director of the California Center for Cooperative Development (CCCD), leads a workshop on co-op fundamentals. She says demand is especially rising in California for new worker and housing co-ops. Photos courtesy CCCD



THE CO-OP CENTER THAT REFUSED TO DIE!

*California center reinvented
itself as a nonprofit after loss
of state funding*

By Dan Campbell, Editor
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In 2004, when state funding was eliminated for the University of California Cooperative Development Center (UCCC), it appeared to be the end of the road for a noble endeavor to develop new cooperatives as a way to create jobs and economic advancement for people struggling for a better quality of life.

And it probably would have ended there had it not been for the determination and hard work of E. Kim Coontz, then a cooperative facilitator with UCCC, and Leland Ruth, then the president of the Agricultural Council of California, a statewide legislative and education association for agricultural cooperatives. Together, they led the effort to re-create the university center as the California Center for Cooperative Development (CCCD) as a nonprofit co-op center after its ties to the University of California (UC)

Cooperative Extension Service ended.

Center launched with high hopes

The university' co-op center was founded in 1988 by an act of the state legislature with high hopes of sparking a revival of cooperative development in a state that is home to some of the nation's oldest and strongest ag co-ops. It was especially hoped that these new co-ops would serve the needs in the state for small-scale farming, housing and child care services.

The center was located on the University of California-Davis campus, where its small staff worked in an office that was part of the UC Cooperative Extension Service. Its mission called for the center to divide its efforts equally between agriculture and the broader co-op sector.

Staff was selected based on experience in either agriculture, housing, food/grocery or child care co-ops. Coontz, the current CCCD director, is the only remaining staffer who was involved with the center during those first years. “I applied for the child care co-op position, based on experience I had, and later I expanded into working with other types of co-ops,” Coontz recalls.

Despite the fact that staff had plenty of co-op work to do, “there were always questions from the campus side: ‘what are you guys supposed to be doing?’” Although staff did do some applied research and education work, “there were feelings that our work was ‘too applied’ [overly centered on technical assistance, rather than on research and education], even though Extension is supposed to do applied work.”

The center was then getting about \$350,000 annually from the state, which only enabled staff to work half time. “If we wanted to work more than that, we had to raise our own money [from project work],” Coontz says. This usually involved seeking grants that could support co-op development work.

CCCD was one of the first recipients of a USDA Rural Cooperative Development Grant (RCDG), which helps to fund dozens of co-op development centers around the nation. “The RCDG program has always provided very valuable support for the work we do,” Coontz says.

One plug pulled, another found

The University Center for Cooperatives experienced numerous director and staffing changes in those

California Connection

The series of articles on pages 16 through 27 spotlight the California Center for Cooperative Development (CCCD) and the wide range of co-op development projects it is involved in, as well as a look back at the history of the center. CCCD is just one of a network of co-op development centers nationwide that USDA’s Rural Business-Cooperative Service helps to support through its Rural Cooperative Development Grant (RCDG) program.

early years, which no doubt hurt its stability and may have further eroded support from the university. When the decision was made by the university at the end of 2004 to close the center, Coontz wasted no time going to work to try and save it.

This entailed working with a couple of people who had been on the center’s advisory board. “But I mostly worked with Lee Ruth. Together, we put together a new board and succeeded in re-launching the center as a nonprofit in 2007.”

CCCD no longer has formal links to the university, although its projects frequently involve working with university staff. “We modeled the center after our original UC Extension office, using many of the same kinds of systems — but we don’t do research.”

Funding comes from many sources.

“USDA’s RCDG program is still really important in helping to pay for our operations, even though it is just a portion of our budget. We also get federal funding through Socially Disadvantaged Group Grants (SDGG) [another program administered by

USDA’s Rural Business-Cooperative Service].

The primary objective of SDGG is to fund technical assistance for socially disadvantaged groups, working through cooperatives and cooperative development centers. This year, the program provided \$3 million nationally for such work.

“We also get project-based money. For example, Angelica Medina’s work with Yolo Eco-Clean Cooperative (see page 21) is funded with regional grants and donations, as well as a generous grant from the Catholic Campaign for Human Development.”

Funding uncertainty creates challenges

Federal grants and smaller foundation grants must be applied for annually, which makes project planning and staffing more of a challenge, Coontz says. It is never certain in any given year that a co-op center will earn one of these competitive grants.

The number of applicants for RCDG and SDGG funds almost always outstrips available funding. If such grants could be awarded on a two- or three-year funding cycle, it would be an enormous help with planning operations and projects, Coontz says.

“We have built up a reserve fund — from donations, not from project work. But that still will only cover us for about four-and-a-half months — and it has taken a long time just to do that.”

Coontz notes that the university co-op center was far from the only UC Extension office to feel the budget ax. Other state Extension offices have for many years been scaling back operations due to shrinking budgets.

“It is sad to see Extension people with so much expertise — people who farmers could call for help on so many issues — now retiring and not being replaced.”

On the bright side, some cities are starting to fund more co-op development work, with Oakland being



Inspecting the playground at the Santa Elena housing cooperative. Members of three area housing co-ops shared information about special turf grasses and playground equipment.

a recent example, notes CCCD Assistant Director Luis Sierra. “It is really exciting to see that catching on. We are praying that someday the Housing and Urban Development side of the government will have parallel

and Sierra see this trend continuing.

CCCD has always been involved with housing cooperatives, but that sector will likely be an even bigger priority in the years ahead. Housing prices in the Golden State have risen so

co-ops in with condo associations and the like,” says Coontz, adding that this is not a good fit for co-ops. More recently, another state law was passed that addresses some of the factors that have been limiting the development of housing co-ops, she notes, “but it has been a slow go.”

Issue not limited to California

“For any state that has problems with housing affordability, the question is: why are we not using more co-ops to meet the need? There are some great studies that show how much more government dollars can accomplish when spent on developing housing co-ops versus one-off help for one person to buy a house. After a few years, that home buyer may well turn around and sell the house for a much higher price,” helping to fuel the further housing price inflation.

“With a limited equity housing co-op, when you move, you will get some of the equity back, but the overall affordability of the unit is maintained

“With a limited-equity housing co-op, when you move, you will get some of the equity back, but the overall affordability of the unit is maintained for the next buyer. It is such a great model.”

programs to some of the rural development grant programs for co-ops.”

Need soars for worker and housing co-ops

Over the years, CCCD has gradually increased the number of worker co-op projects it has been involved in. With interest in this business model for workers being on a steep rise — not just in California, but nationally — Coontz

dramatically that it is making homeownership an impossible dream for a large percentage of the population. Never has the need for housing co-ops been greater, Coontz stresses.

“It has been hard to get the state to recognize that the housing co-op model is worth putting more money into,” Coontz says. While state legislation has been passed to support development of limited equity housing co-ops, it “lumps

for the next buyer. It is such a great model — we just need to figure out how to develop more of them.”

For housing, farming, worker-owned and all other co-ops sectors, Coontz says CCCD “remains committed to finding ways to use co-ops as an effective economic development tool. Co-ops can be used by all economic groups — it is a business model that will empower people who don’t have many other resources.” ■



CO-OPS PROVIDE HOUSING AND MORE FOR FARMWORKERS

Doing work with co-ops that can “help turn people’s lives around” is one of the reasons Louis Sierra says he loves being a co-op facilitator with CCCD. USDA photo by Lance Cheung.

bumper sticker could read: No Farmworkers, No Food.”

With its need for a large seasonal and permanent farm workforce, providing good quality housing for workers has always been a big challenge in California. This, too, is an area in which the California Center for Cooperative Development (CCCD) is actively engaged.

CCCD Assistant Director Louis Sierra is heavily involved with providing technical assistance to farmworker housing co-ops, including several co-ops in the Salinas Valley. He also has extensive experience in developing agricultural marketing organizations, including work training fruit and vegetable farmers to organize their own cooperative.

Sierra — who serves as board treasurer for the co-op he calls home, Dos Pinos Limited Equity Housing Cooperative in Davis — also provides training and technical assistance to three limited-equity farmworker housing cooperatives in the Salinas Valley. This area is often referred to as “America’s Salad Bowl,” because it produces such a huge amount of the nation’s fresh vegetables. If you have broccoli for dinner tonight, says Sierra, there is a very strong chance it was grown in a 10-mile strip of land near this co-op.

By Dan Campbell, editor

Editor’s note: This article is based on an interview conducted by USDA photojournalist Lance Cheung. The Farm Labor Housing Direct Loans & Grants program of USDA Rural Development can help develop housing for both year-round and migrant farmworkers. Farmer associations and co-ops seeking to develop housing projects are eligible for funding. For more information, visit: www.rd.usda.gov and follow the links for “Multi-family housing programs.”

“NO FARMERS, NO FOOD,” is a popular bumper sticker in rural America. Even with mechanization taking on an ever-bigger role in U.S. agriculture, another apropos

All of the Salinas co-ops Sierra works with — Buena Esperanza Cooperative, Cooperativa Santa Elena and San Jerardo Housing Cooperative — were built in the 1970s as affordable housing for farmworker families. “Many of the units are now occupied by the second, or even the third generation of some of the original families. The manager of San Jerardo co-op was raised there,” Sierra says. The younger generations have, in many cases, moved up from farm field work to more professional agriculture jobs, or into non-ag trades, such as construction work.

These housing co-ops, as with other types of co-ops, offer members ample opportunity to develop leadership skills as they are elected to seats on the board or serve on committees. CCCD has used funding under USDA’s Socially Disadvantaged Group Grant (SDGG) program to pay for board training, including conflict resolution workshops, as well as for technical assistance for updating organizational documents, providing legal advice and completing financial-reserve studies.

Co-op deals with water quality crisis

One of the Salinas housing co-ops, San Jerardo Housing Cooperative, has had to deal with a serious challenge regarding the quality of water coming out of its taps. “This co-op is in a part of the Salinas Valley where everyone has to get water from wells,” Sierra says. “But there has been pervasive use of pesticides and nitrogen fertilizers there over the years, which has created problems in the water table. This situation represented both a crisis and an opportunity

for the co-op,” Sierra explains.

Several solutions have been tried, including drilling a new well that went horizontally under the fields into the nearby mountains to get clean water, Sierra says. Ultimately, the county built a water treatment facility to serve the 60-unit housing co-op, viewing this action as a short-term, emergency action. “Long term, the county did not want to operate this plant,” Sierra says.

Co-op members expressed interest in learning to run the water plant, but others had doubts about whether co-op members had the required skills. “We helped show that through 40 years of being a co-op, they did have the skills and ability to run a multi-million-dollar water facility.”

With help from the UC Hastings Law School and CCCD, the co-op has been weighing its options for buying the water plant. One way to do so involves forming a separate, mutual utility water company to operate the plant. “You would have the same members as the housing co-op, but it would be two organizations.”

Sierra has also worked to bring the co-op’s governance bylaws into compliance with state law. “They had already been working that way [following democratic co-op practices], but it needed to be better codified.”

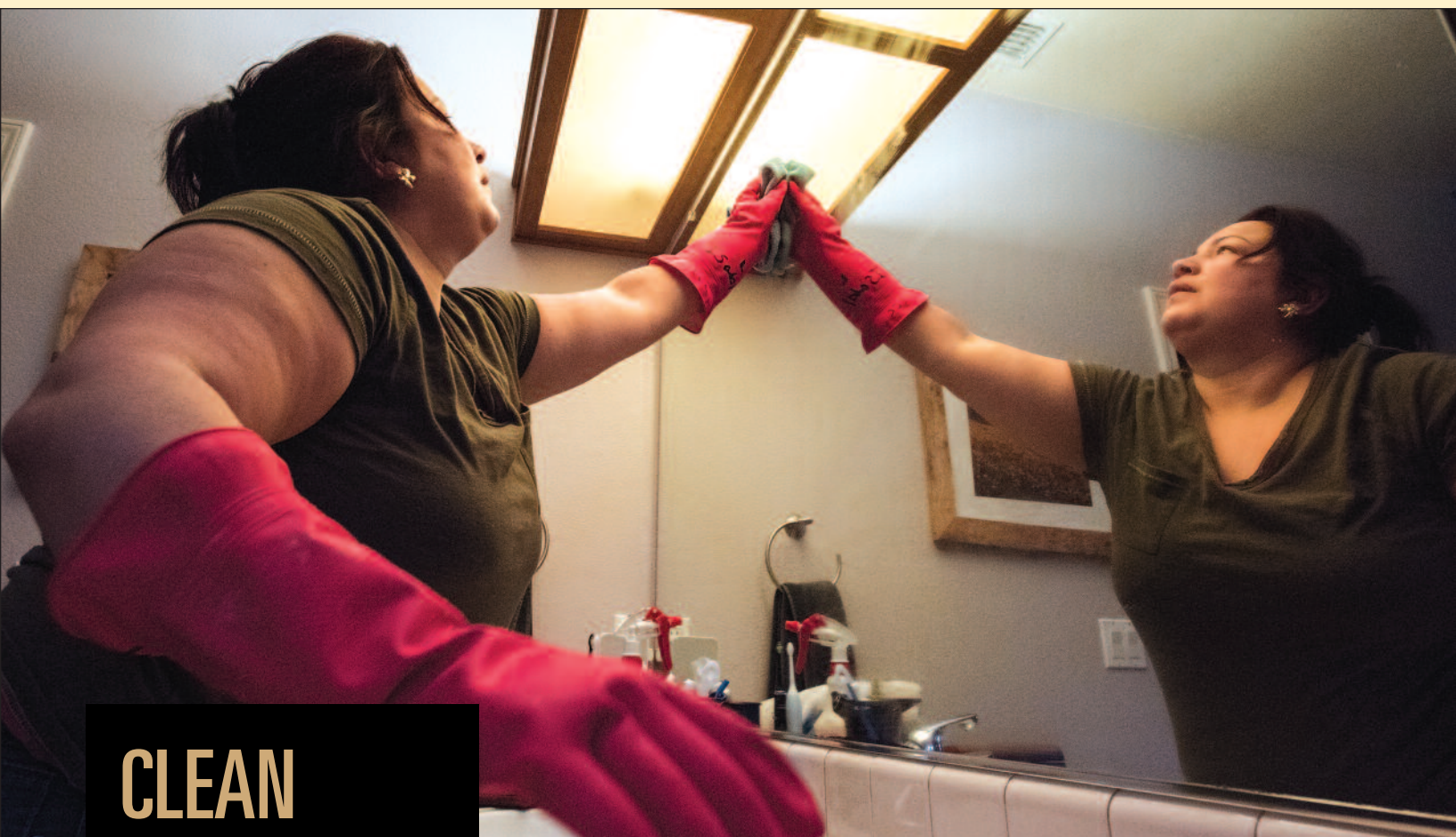
Sierra also worked with a farmworker housing co-op where he helped members enroll in a rental subsidy program through USDA.

“That’s one of the really good feelings you get working here — when you do something like that which can turn people’s lives around.” ■

Touring a farmworker housing co-op as part of the “Co-op Convergence,” organized by CCCD’s Louis Sierra. The event brought together leaders of three farmworker housing co-ops in the Salinas Valley to participate in an education program, share information and build connections. Photo courtesy CCCD



Maria Fernandez cleans a customer's home in Davis, Calif. Co-op members mix their own environmentally benign cleaning products. USDA photos by Lance Cheung



CLEAN AND GREEN

*Co-op provides workers with better pay,
work conditions and chances to gain skills*

By Dan Campbell, editor

AFTER 400 HOURS of vacuuming, scrubbing, mopping, dusting and all the other tasks required to keep a home ship-shape and shining, Isabel Fernandez has more than a paycheck to show for her labors. She just qualified for membership in the new Yolo Eco-Clean Cooperative. The co-op board, currently comprised of community volunteers, in late March voted her in as the first official worker-member of the co-op.

She won't be the only full member for long. As of this writing, the co-op has seven trainee members who will qualify for full membership after working 400 hours or six months, whichever comes first, for the co-op. The next two workers will likely have earned co-op membership by the time you read this.

Once they become members of the co-op — which uses only natural, “green” cleaning products — workers qualify for the co-op's year-end profit-sharing program. This patronage is

based on the number of hours they worked for the co-op during the preceding year.

Before applying to work at the co-op, prospective members get a crash course in co-op fundamentals and practices by attending four workshops, taught in both Spanish and English.

The 400-hour/six-month work requirement for membership in the co-op provides the needed trial period to determine if the worker and the co-op are a good fit for each other, explains E. Kim Coontz, CCCD director.



“This is a build-and-recruit model co-op,” Coontz explains, in which pre-development and early-launch decisions are made by a steering committee and temporary board, composed of six community volunteers and CCCD staff. This board shepherds the business while initial member-candidates go through the membership process. Volunteers leave the board as worker-members join it. By the end of the co-op’s first year, the board will be composed entirely of worker-members.

Training workers to be managers

Yolo Eco-Clean is currently being managed by Angelica Medina, a co-op facilitator with CCCD. Medina’s work includes marketing the co-op, which involves finding the cleaning jobs, arranging work contracts, etc. Long term, Medina’s mission is to teach the workers to master the more sophisticated business skills needed so that they can run the co-op themselves.



CCCD facilitator Angelica Medina (right) discusses the day’s jobs with co-op members. She is the co-op’s business manager at present, but is teaching co-op members to assume her duties. Right: Delia Garcia will leave behind a shining, spotless kitchen when she finishes.





“Our focus at CCCD is to develop co-ops that create jobs for under-served community members, including worker-ownership opportunities,” says Angelica Medina.

“Angelica’s goal here is basically to work herself out of a job!” says Coontz, with a laugh. “Not really though, because she will then move on to another co-op project.”

For the workers, all of whom are working mothers who speak Spanish as their primary language, the co-op provides a better pay scale than is typical for housecleaning work. In addition to a chance to share in the profits, the co-op is also an avenue for more steady work with flexible working hours. The latter is very important for a working mother who must balance work and family demands, Coontz says.

According to a recent CCCD newsletter, members of the co-op “have opportunities to try on ‘new hats’ as they engage in business strategy, public relations, accounting, marketing and leadership. Empowerment and social capital are natural outcomes of worker cooperatives. The tangible personal and societal benefits include skill development, job satisfaction, increased civic engagement and even increased [worker] happiness.”

“Our focus at CCCD is to develop co-ops that create jobs for under-served community members, including worker-ownership opportunities,” Medina says.

Fernandez, the mother of three children, including one preschooler, says the co-op “gives you the

opportunity to grow as a person and professionally.” The schedule flexibility, she continues, allows her to work the needed number of hours while also providing the ability to spend time with her family.

“It provides my family with a life of better quality. It has also allows me to help my husband with the house bills. My family and I see this as a bet, and we are betting on the success of [the co-op]. I am really proud to be a member of Yolo Eco-Clean Co-op.”

Master mixers

Yolo Eco-Clean not only uses “green” cleaning products, but it saves money by having workers mix their own. They use common household ingredients, such as baking soda, vinegar and the essences of lemon, orange and peppermint. The latter ingredients not only leave a pleasant scent behind, but some (such as peppermint) help repel ants and some other insects.

“We don’t use any bleach or other toxic materials,” Medina stresses. Using natural cleaning ingredients has health benefits for humans (especially those who may suffer from asthma or allergies) and for their pets, she adds. They also create far less impact on the environment when washed down the drain.

“A lot of marketing goes into selling [commercial] green cleaning products, but no law says they have to list the ingredients,” says Coontz. “A lot of the time, you have to take their word for it [being green], and you pay a lot more for it.” Most of these commercial green-cleaning products on the market, she adds, are made from the same basic ingredients that the co-op mixes.

Like any worker co-op, learning to compromise and reach joint decisions takes time and effort. Co-op members currently gather for a business meeting every two weeks.

“Getting the members to come together and make decisions can be hard some days, but overall they work

very well together,” Medina says. She is proud of the *esprit de corps* members have developed.

At present, the co-op’s work is primarily cleaning homes, but it has three commercial clients and Medina is seeking additional commercial clients.

Board transition planned

Co-op bylaws provide for the gradual transition from community volunteer directors to worker directors, as the latter gain knowledge and skills. Eventually, workers will comprise the board majority. The bylaws stipulate that there be a permanent board chair for a “nonprofit director,” with a primary role being to ensure that the business remains a co-op, Coontz explains.

If there is ever an effort to demutualize the cooperative (so that it would no longer be a co-op), the vote of the nonprofit director would be required for the motion to pass, Coontz explains.

While the co-op’s business plan calls for Yolo Eco-Clean to expand service into other parts of the county, efforts are still made to concentrate jobs as much as possible in an area close to a worker’s home, minimizing their drive-time, which can be a major expense. The Yolo Eco-Clean business office is currently housed at the CCCD Davis office in Yolo County, west of Sacramento.

Once Medina no longer needs to devote so much time to managing the Yolo Eco-Clean Cooperative, her next project will likely be to help develop a home health care co-op. Such a co-op would provide the care needed to help seniors and the disabled stay in their own homes for as long as possible, says Coontz. “It’s another huge area of need that the worker co-op business model can help meet.”

Note: This article is based on interviews conducted by USDA photojournalist Lance Cheung and by the author. ■

Dried jujubes are a value-added fruit produced by the Hi Desert Jujube Cooperative. Ume plumbs, seen here at blossom, are another traditional Asian fruit being grown by a cooperative, with assistance from CCCD. Photos courtesy CCCD



A BORN COOPERATOR

By Dan Campbell, editor
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Editor's note: This article is based on interviews conducted by USDA photojournalist Lance Cheung, a USDA-sponsored panel talk on diversity within co-ops, and on subsequent interviews.

TO SOME PEOPLE, the Lucerne Valley in the high desert country of San Bernardino County, Calif., is “drive-through country” — an arid place to cross on the trip from Los Angeles to Las Vegas. But for a cooperative of about 80 farmers, most of whom are Korean immigrants, it’s the place where they are growing traditional East Asian fruits and vegetables — foods that are often difficult to find in U.S. food stores.

The Hi Desert Jujube Cooperative’s main crop is jujubes, sometimes called

*Co-op developer
thinks Asian fruits and
vegetables could
be the ‘next sushi’*

“Chinese dates” in America, which are used both as a food and a medicine. They are also growing ume plums, used in a wide variety of Asian foods and sauces, among other crops.

What was their attraction to this desert area? “The land was cheap and these crops can be grown in an arid environment,” says Mai Nguyen, a cooperative development associate with the California Center for Cooperative Development (CCCD). “Growing these crops in the high desert with very little water is highly relevant for California,” especially in times of drought.

The farmers have “come together to increase their power through the economy of scale. Together, they can compete,” Nguyen (pronounced “new-en”) continues. While the co-op has “a strong board that is very responsive to the membership and understands how a co-op business must operate...it faces

many business challenges, especially in getting organic certification.”

The organic regulations run to about 150 pages, “much of it in very technical language,” says Nguyen, who translated the regulations into Korean for them. But it’s not just a language issue. To these farmers from another land and culture, some of the rules just don’t make any sense, namely why they must fill out pages of paperwork and pay thousands of dollars for a label to

indicate that they’re not putting any chemicals on their crops. Nguyen is thus helping them understand the organic rules and procedures.

Little technical support available for crops

The co-op has been seeking financial support under some USDA programs for beginning and socially disadvantaged farmers, although it has not yet been successful in the effort. It

Mai Nguyen, a co-op facilitator with CCCD, on her farm near Petaluma, Calif., where she grows garbanzo beans (seen here) and four varieties of heritage wheat. The varieties that thrive will be harvested for seed. USDA photo by Lance Cheung.



has also been difficult to get technical support for growing and marketing their crops. Even in a state known for its wide variety of specialty and niche-market crops, there isn’t much help available for the Asian crops.

Indeed, Nguyen says they’ve been advised not to grow the Asian crops because “there isn’t enough of a market for them. But we know that there is. We meet so many people in Los Angeles and other places who are excited that these crops are being grown close to them. It’s just been a struggle to find [advisors] who are knowledgeable about these specific crops.”

Nguyen encountered similar obstacles as a farmer. “Extension agents would try to deter me from growing the crops, for the same reasons.”

Not enough attention has been paid to the East Asian demographic market, Nguyen says, adding that its potential for sales is greatly under appreciated. Co-op leaders think there is also a huge potential “crossover” market if the broader American public can be prompted to taste and try these foods. Today’s “exotic fruit” may become tomorrow’s staple.

“You can make the analogy to sushi as a healthy and tasty” Asian food, Nguyen continues. “Fifteen years ago, few people were eating sushi in America — most people found it rather repulsive. Now it’s wildly popular.”

Among other farmer co-op development projects Nguyen is involved in is the Solidarity Farm Co-op in San Diego County. This co-op is growing organic produce which is being marketed in San Diego through a community supported agriculture (CSA) subscriber program (see the Sept.-Oct. 2016 *Rural Cooperatives*, page 28).

A born cooperator

Nguyen feels like “a born cooperator. My mom trained me in co-op principles from childhood.” After a treacherous escape from Viet Nam,

Nguyen's parents arrived in the United States with very little.

"It was the same for most of the people in the community I grew up in. Lacking prospects for good jobs or housing, people had to work together. They formed lending circles — which were like informal credit unions — so that they could afford to buy a home outside the [high crime] area they had been resettled into.

"I saw my mom always asking others what issues they were facing, and looking for ways they could address their needs together — a democratic, participatory approach. Having lived through the fall of Saigon to communist rule, she really valued the right to free speech and freedom to organize and for self-determination, because all that had been taken away from her. My mom saw how the power of cooperation enabled her to make a new life in the U.S."

More formal exposure to U.S. cooperatives came after Nguyen joined a student housing co-op at the University of California-Berkeley. That led to becoming immersed in nitty-gritty co-op issues, ranging from how to use Roberts Rules of Order to run a membership meeting, to finding a compromise as to what brand of honey to stock in the kitchen.

"When you've got a bunch of 20-year-olds running a house, you really have to learn to cooperate!" Nguyen says, with a laugh.

In the years between college and going to work for CCCD, Nguyen had widely ranging experiences working with co-ops and international assistance organizations. Nguyen started the West Coast Cooperatives Conference and

managed a co-op food waste-reduction project, co-founded the Toronto Sustainable Food Cooperative (a worker co-op that operated a café), and worked to help refugees in the United States, Canada and abroad through organizations such as the International Rescue Committee, the Democratic Alliance for Burma and CultureLink.

Nguyen also coordinated one of the nation's first farmers' market food

immigrants — and who was excited about co-ops — guess who she thought of first?

Grain farming leads to machine-sharing co-op

Nguyen also has a small farm in Lake County, Calif., where sustainable and drought-tolerant farming methods are used. Initially it produced row crops, but after suffering some serious injuries

when hit by a truck while making a delivery, it became physically hard to do the type of labor needed for row crops. So Nguyen switched to growing less labor-intensive heritage grain varieties.

That decision was in part prompted by "a general void of organic grains at farmers' markets in California. We have farmers markets that are full of wonderful fruits and vegetables. But grains are also a huge staple of our diet."

Some heritage grain varieties are well suited to dryland farming, Nguyen notes. "These grains are important for a bio-diverse farm sector. They store carbon and produce onsite straw that provides bedding material." This straw is important for dryland farming, they explain, because it helps keep precious moisture from rain

in the ground.

"A big barrier for small-scale grain farmers is getting appropriately scaled farm equipment — like seed cleaners, gravity tables and augers." For large machines, like combines, the purchase price is often cost prohibitive for small-scale farmers, Nguyen says.

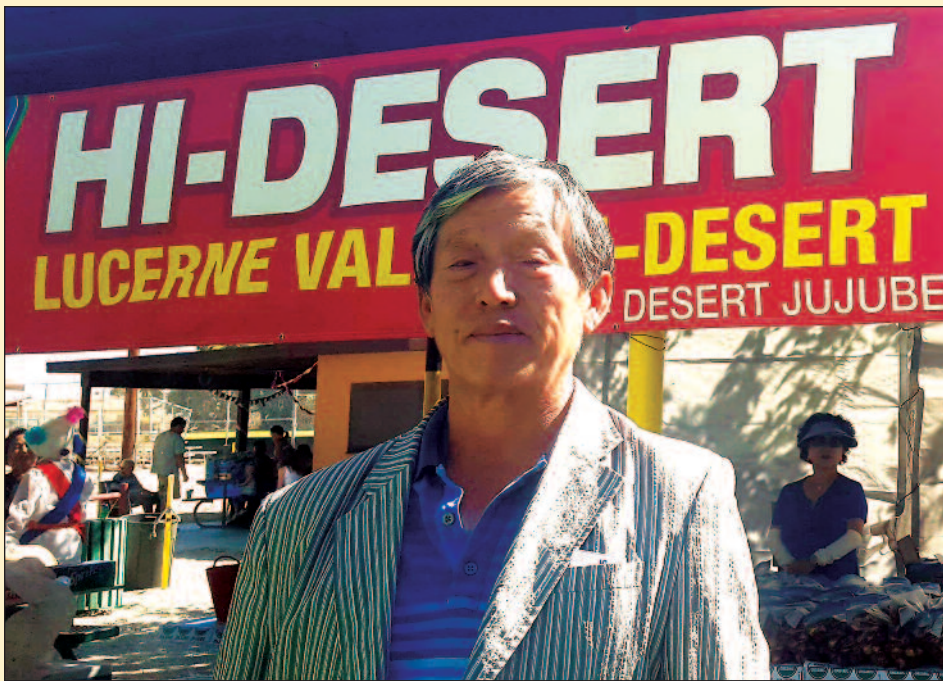
To bridge the gap, Nguyen felt it would make sense to work with others to pool money to buy equipment that could be shared, since the gear is often



Mai Nguyen helps educate consumers about heritage grains. These grains were once in danger of disappearing, but are now finding a market niche. Photo courtesy CCCD

stamp-match programs and supported refugee farmer initiatives in San Diego.

So, when a friend saw a job description from CCCD looking for someone with farming experience and who had worked with refugees and



Hwa Young Chung, president of the Hi Desert Jujube Cooperative, is ready to market the Asian fruits grown by his co-op at the Hi-Desert Festival.

To separate wheat from chaff – and to sift out weed seeds – Mai Nguyen pours organic grain onto an air-screen cleaner. Nguyen has also produced a heritage grain catalog to help market the crops and educate consumers about them. Photos courtesy CCCD



only used for a limited time once each year. Working with a small group of like-minded farmers, the Bandit Seed Co-op was formed. Members scoured classified ads across the country to find used farm equipment, some of which needed restoration work but would be well suited for their operations.

To help market heritage grains, Nguyen created a special catalog. “People were lost about marketing heritage grains. They want to tell their stories, but didn’t know how. So I was like: ‘why don’t we just make a catalog?’”

Nguyen designed and published the grain catalog, which was well received at the Cascadia Grain Conference, a meeting of heritage grain growers. “In our little world, the conference is a big deal, and they were very excited about the catalog.”

Nguyen was invited to be a guest speaker at the most recent conference in January 2017 in Olympia, Wash. The catalog project is seen as something that will help build cooperation among heritage grain farmers and lends itself to supporting the work and mission of CCCD.

The plan is to update the catalog annually, as soon as growers have a good estimate of what heritage grains and volumes they will be harvesting. Along with a directory of grain farmers and what they have for sale, the catalog “tells the story of these heritage grains...and the effort to revitalize them.”

For example, Nguyen says the Sonora variety “is one of the oldest wheats grown in the Americas. It was California’s main crop in the 1800s because it can be dryland farmed. Both sides ate it during the Civil War and it was exported worldwide.”

When newer varieties of wheat were introduced, Sonora faded away. “Then, one farmer started growing it again,” and its popularity is gradually increasing. “These types of stories are told in the catalog — that there is a

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Management Tip

How would proposed tax reforms impact farmer co-ops?

By Meegan Moriarty

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USDA Rural Business-Cooperative Service

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President Trump is eager for tax reform, and Congress has promised to pass tax legislation before the

August recess. How would tax reform affect cooperatives and farms?

Tax experts provided some answers at an April 5 hearing before the House Committee on Agriculture. The hearing addressed proposed changes in the House Ways and Means Committee's June 2016 "Blueprint," officially titled "A Better Way for Tax Reform." Witnesses stressed the unique nature of cooperatives and agriculture, the tight margins under which farms and ranches operate, and the fluctuating nature of farm income in which years of prosperity can be followed by years with low commodity prices or weather disasters.

Experts focused on tax rate cuts, the proposed border adjustability tax, the deduction for domestic production activities, the estate tax, like-kind exchanges, the interest expense deduction and a miscellany of provisions that facilitate tax planning for farmers. The National Council of Farmer Cooperatives (NCFC) weighed in through testimony submitted for the record.

Tax rates

According to 2015 USDA Agricultural Resource Management Survey data, 97 percent of U.S. farms are subject to taxation at individual rates. President Trump and the

Blueprint call for a reduction of the number of tax brackets and the rate of tax for individuals. Currently, individuals are subject to seven tax brackets, with a top individual rate of 39.6 percent. Under the Blueprint, individual income would be taxed at 12, 25 or 33 percent. The President's plan would provide three tax brackets, at 10, 25 and 35 percent.

Under both plans, the new standard deduction would be higher than the current law's standard deduction. Further, many individual exemptions, deductions and credits are proposed to be eliminated, but the mortgage interest and charitable contribution deductions would remain. The President's plan would double the standard deduction, but does not address whether personal exemptions would be kept. The Trump plan would also eliminate the deduction for state and local taxes.

Although the Blueprint contemplates that taxpayers currently in the 10-percent bracket would pay less in taxes than under current law, Patricia A. Wolff with the American Farm Bureau Federation cautioned that the effort to flatten the tax rate structure and reduce the number of deductions could result in a tax increase for farmers and ranchers.

The Blueprint would create a new business tax rate of 25 percent for sole proprietorships or pass-through entities on "active business income" with owners' "reasonable compensation" passed through and subject to the three-tiered individual rates. The President's plan would permit pass-through entities to be taxed at 15 percent, the rate that he has also proposed for the corporate tax. Concerned that cooperatives would be

at a disadvantage compared with other pass-through entities, the NCFC has requested in testimony that patronage distribution be subject to the new 25-percent pass-through rate, rather than to individual rates, as is the case under current law.

The Blueprint would allow individuals to deduct 50 percent of net capital gains, dividends and interest income (depending on the tax bracket, at 6, 12.5 or 16.5 percent). The President wants a 15-percent tax rate for C-corporations (which would also apply for cooperative earnings not passed through as patronage); the Blueprint calls for a 20-percent corporate tax. Under the Blueprint, both the individual and corporate alternative minimum tax would be repealed to help simplify the tax code.

Border adjustability tax

Under current law, the United States taxes the worldwide income of corporations; many of its trading partners (including the European Union) instead impose a value-added tax (VAT). Under a VAT, inputs to produced goods are taxed as they are added along the value chain. *The Atlantic* magazine provides the following simplified example for how a 10-percent VAT would work:

A farmer sells wheat to a baker for 20 cents. The baker pays the farmer 22 cents and the farmer sends a 2-cent VAT tax to the government. The baker sells a loaf of bread to a supermarket for 60 cents. The supermarket pays the baker 66 cents and the baker sends the government 4 cents and gets a 2-cent credit for the tax already paid. The store sells the loaf for \$1. The consumer pays \$1.10. The store sends the government 4 cents total, the 10 cents it

collected in the VAT on its sales, minus the 6 cents it paid to the baker, which it gets back as a credit. The government has received 2 cents from the farmer, 4 cents from the baker and 4 cents from the store, for a total of 10 cents on the final sale of \$1 for a 10-percent VAT. (For more, see *The Atlantic*, March 1, 2010, <https://www.theatlantic.com/business/archive/2010/03/how-does-a-value-added-tax-work-anyway/36834/>.)

Under World Trade Organization (WTO) rules, a country with a destination-based VAT system can make a “border adjustment” when goods are exported. This “border adjustment” allows the country where the item was made to exempt the exported item from taxes. The assumption is that the item will be taxed in the trading partner country where it is imported and

consumption-based system, where a “border adjustment” would make exports tax-free and would disallow the business expense deduction for imported goods. The result could be a boon to exporters, including the many agricultural producers who sell their goods abroad. However, NCFC expressed concern, in testimony submitted for the record, that the border adjustability tax would impose what would amount to a 20-percent corporate tax rate on goods needed by agricultural organizations, including imported retail products, machinery, fertilizer and fuel.

The President’s plan does not include a border adjustability provision. Instead, it proposes a “territorial” tax system, in which the United States does not tax foreign income of U.S.

border adjustment credits, since commodities are pooled.

Domestic production activities deduction

This deduction, provided for by Internal Revenue Code Section 199, has been helpful for cooperative tax planning because cooperatives have the option of passing it through to their members or keeping it at the cooperative level. The deduction applies to proceeds from a range of cooperative agricultural products, including dairy, crops, livestock and even oil and gas refining. The Blueprint proposes to repeal the deduction because it would raise revenue that Congress can use to offset the cost of proposed rate reduction and other simplification measures. NCFC believes



Farm Bureau expressed support for current law provisions...that allow for accelerated cost recovery for business expenses, including write-offs of equipment, production supplies and pre-productive costs.

consumed. Goods imported from the trading partner country will also be taxed in the country where the goods are consumed. In this way, cross-border transactions between two countries that both have VAT taxes involve equal treatment of goods.

Under current law, the cost of goods exported from the United States implicitly includes a portion of the amount that was paid by U.S. companies as income tax. No border adjustment is allowed under WTO rules for goods from countries with traditional corporate income tax systems. But goods imported from VAT countries do not have that implicit tax cost, making U.S. goods more expensive and adding to a trade imbalance.

The Blueprint would move toward a

companies. Instead, the income is taxed in the jurisdiction where the income was earned. The President’s plan does not describe taxation of U.S. earnings that have remained in foreign jurisdictions and have not yet been subject to tax in the United States.

While economists argue that the economic effects of the border adjustability tax would be to cause an increase in the value of the dollar abroad, NCFC is concerned that the dollar may not strengthen against other currencies and, if it does, trading partners may impose retaliatory tariffs on exports. Witness Doug Claussen with K-Coe Isom LLP, a certified public accounting firm, said that there are complex problems with tracking which farmers’ products in the value chain are being exported and are due

that Congress should retain the deduction, saying that section 199 “benefits are returned to the economy through job creation, increased spending on agricultural production and increased spending in rural communities.”

Estate tax

Former House Agriculture Committee member and current Ways and Means Committee member Rep. Kristi Noem of South Dakota, along with other agriculture tax experts at the hearing, advocated repeal of the estate tax, as proposed in the Blueprint. Noem said her father died at age 49 in a farm accident, requiring her to leave college and help run the family farm. Shortly after her father’s death, the family received a bill for the estate tax. To pay

it, the family had to mortgage the farm, diminishing investment in the farm during the term of the loan.

For 2017, generally, estates with a fair market value of \$5,490,000 and up must file the estate tax return. Many of the witnesses at the hearing, as well as several of the Agriculture Committee members, expressed support for the tax's repeal. However, Rep. Darren Soto of Florida expressed concern that, while there is sympathy for repealing the estate tax for farmers' families, there is less sympathy for repealing the tax for wealthy survivors of, for example, hedge fund managers. President Trump's plan would repeal the estate tax.

Stepped-up basis

Farm Bureau's Wolff applauded the proposed reduction in the capital gains tax rates and discussed how capital gains taxes apply when individuals inherit real estate. Individuals are not required to pay tax as the fair market value of their land increases. Landowners retain a "basis" in the land — generally, the

disincentive for land transfers.

Like-kind exchanges

Witnesses agreed that tax reform should preserve the availability of Internal Revenue Code Section 1031 like-kind exchanges. Like-kind exchanges are an effective means for farmers to exchange similar property for similar property and defer tax by keeping a basis in the new property at the same level as the basis in the old property. Like-kind exchanges are permitted for land, buildings, equipment and breeding and production livestock, and allow farmers to make necessary improvements without incurring additional debt to pay taxes.

Interest deduction

The Blueprint would eliminate the deduction for interest payments as a business expense, except to offset interest income. Since farmers have limited access to equity financing, eliminating the deduction for interest

Williamson, economist for USDA's Economic Research Service. Witnesses testified that it is especially important for farmers to have access to flexible tax provisions that help with stabilizing income.

Other tax issues

Cash vs. accrual accounting — Although not part of the Blueprint, in 2013 the Ways and Means Committee proposed eliminating cash accounting for certain taxpayers. Members of the Committee seemed sympathetic to witness requests that Congress preserve farmer access to cash accounting. With cash accounting, a tax is due when the taxpayer actually receives payment. In contrast, with the accrual method of accounting, the tax is due when the obligation to pay is incurred.

LIFO — Cooperatives should continue to have access to the last-in, first-out (LIFO) accounting method, according to NCFC. Under LIFO accounting, goods last acquired are presumed to be sold first. According to

NCFC believes that Congress should retain the domestic production activities deduction because it creates jobs, increases spending on ag production and boosts spending in rural communities.

amount at which the land was acquired. When the land is transferred, the difference between the basis and the amount for which the land is transferred is taxed at capital gains rates.

When land is inherited, however, the basis is "stepped up" to the fair market value of the property, and the difference between the basis and the stepped-up value is not taxed. Wolf said that the current law rules, with respect to inherited property and stepped-up basis, should not be repealed under tax reform. Claussen noted that discontinuing the stepped-up basis in inherited land could create significant tax liability on sale, creating a

would make it more difficult to finance land and farm equipment acquisitions, witnesses agreed. The Trump administration is aware that certain industries are concerned about the effects of losing the interest deduction, Treasury Secretary Steven Mnuchin said on April 26 (*Wall Street Journal*, April 27).

Tax planning for producers

Volatility can result in dramatic changes in farm income from year to year. Under a graduated tax system, farmers are likely to pay more in taxes than individuals with steadier incomes, according to hearing witness James

NCFC, taxpayers who use the first in, first out (FIFO) accounting method are taxed as if all inventory had been sold, even though the farmer had received no cash to pay the tax on the deemed sale.

Installment method — An income stabilizing provision favored by the Farm Bureau is the installment method, which permits farmers and ranchers to report sales of crops and livestock and recognize income when payment is received in a subsequent year.

NOL carry forwards and backs — Another income "smoothing" provision allows taxpayers to carry forward and back certain net operating losses

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Utility Co-op Connection

For Georgia's Sawnee EMC, serving growing member base means more than supplying electricity

By Anne Mayberry,

Legislative and Public Affairs Advisor
USDA Rural Utilities Service



“We’re more than electricity — we’re service.”

That’s the motto of Sawnee Electric

Membership Corporation, a rural electric cooperative utility serving north-central Georgia. What Sawnee EMC does is similar to what the other 1,000 rural electric co-operative utilities across the United States do in their service territories: Focus on community needs.

Like most other rural electric co-ops, “Sawnee works to improve the local quality of life by assisting our communities and keeping electric rates affordable,” says Blake House, vice president of member services for Sawnee.

Co-ops have a history of being more than just a source of electric power for homes and businesses. According to the National Rural Electric Cooperative Association, because concern for community is a core principal of the cooperative business model, typical cooperative-sponsored economic development initiatives include community revitalization projects, job creation, improvement of water and sewer systems, and assistance in delivery of health care and educational services. In short, co-ops seek to improve the quality of life for their members and their communities.

Most rural electric co-ops sponsor youth scholarship programs that send high school students to Washington, D.C., to see their federal government at



Students study in the library of Lanier Technical College, one of several colleges that have built facilities in Sawnee's service area and are bringing new jobs to the community while helping residents gain skills needed for career development. Photo by Dave Parrish, courtesy Lanier Technical College.

work. These trips often inspire students to pursue future careers in public service.

Capital credits a plus for co-op members

Cooperatives are supported by members, many of whom see a return on their investment through capital credit or patronage capital programs. Under these programs, dollars generated in excess of the utility's operating costs are returned to consumer-members.

“Our newer customers, who often don't know what a co-op is, also don't know what patronage capital is,” House says. “But once they find out, they prefer getting their power from co-ops. The cooperative business model is eye opening for those who have never been a member of a cooperative.”

Rural electric cooperatives also

sponsor Operation Round-Up programs to provide support for those in need. Co-op customers round up their electric bills to the nearest dollar; the cumulative, donated funds are then donated for a variety of community programs. Sawnee's Round-Up program provided \$2 million for charitable organizations during the past decade.

While co-ops' commitment to community — one of the seven cooperative principles — is a core principal of the cooperative business model, it is also as much a part of the history of cooperatives as is providing electricity to rural America.

Georgia played a key role in the early history of the electric cooperative movement. President Franklin Roosevelt's trips to Warm Springs, Ga., are credited for helping to elicit his support for rural electrification, as it

was on these trips that he discovered the difficulty of life in rural America without electricity.

Overcoming the “privilege of geography”

Author of *Light Up Our Land*, Hank McQuade, notes in his 1990 book that while the economy may have contributed to rural hardship in the 1930s, there was another obstacle to rural economic growth:

“Despite the grinding poverty, hunger and desperation that millions of Americans faced, the farmers and small business people of America’s rural areas were convinced there was one privilege they were being denied that was not the result of the economic debacle. Rather, that privilege was based simply on geography. Rural residents were continuously and emphatically told they



It was during one of his trips to Warm Springs, Ga., to soak in the therapeutic pools there, that President Franklin D. Roosevelt (in car) saw firsthand how desperate the need was for a rural electrification program. Photo courtesy Franklin D. Roosevelt Presidential Library

simply lived too far from the utility lines of the private power companies to receive electricity in their homes and towns.”

Georgia worked quickly to take advantage of the new Rural Electrification Act, approved by Congress in May of 1936. On March 30, 1937, the Georgia General

Assembly approved the Electric Membership Corporation Act, which opened the door to providing electricity to rural Georgia.

By July 16, 1938, community leaders in Georgia’s Forsyth County incorporated the Forsyth County Electric Membership Corporation, which used 163 miles of line to provide electricity to 750 rural homes. By 1950, Forsyth County EMC became Sawnee Electric Membership Corporation, so named because the co-op’s headquarters



The Sawnee EMC cooperative not only keeps the electricity flowing to its members’ homes and businesses, but it is also focused on building stronger communities in its service area of north-central Georgia. Photo courtesy Sawnee EMC

was located in the foothills of Sawnee Mountain, named for a Cherokee Indian chief.

Today, Sawnee serves one of the fastest growing regions in the nation, according to data from the 2010 Census. The cooperative utility provides electricity to more than 154,000 residential and 16,000 commercial and industrial customers across seven counties, bordered by Lake Lanier and the Sawnee foothills.

Avoiding out-migration crisis

For the most part, Sawnee has avoided the out-migration problem that has caused so much economic stagnation in other rural areas. Its proximity to Atlanta and the scenic quality of the service territory have no doubt helped the Sawnee area avoid “losing its best and brightest.”

“We are blessed with both the benefits and challenges of growth,” notes House. “Growth is a blessing. It provides you with the funds to do many

of the things your members need.”

Sawnee’s support of education in its service territory may be another factor in the area’s growth. USDA’s new report, *Rural Education at a Glance, 2017 Edition*,” notes that education is closely linked to economic outcomes. Thus, one of Sawnee’s priorities is to provide reliable electric service to the 51 schools and colleges in its service area, including several new schools built during the past two years to support rapid population growth.

The cooperative has also funded computer labs and outdoor learning centers. “These programs help our kids, our schools and tie us to the community,” House says.

“Students go where the jobs are,” he continues. “The lack of jobs is often a reason that students elect not to return to their rural area after college. Adding new schools, and 250 or so new teachers, provides jobs for those who grow up here and choose to return and fill those jobs.” Educational institutions, such as Gwinnett and Lanier Technical College, that have built facilities in Sawnee’s territory are helping to bring jobs to the community and offer opportunities for people to enhance their academic, personal and career development.

Growth generates more growth

“Growth drives economic development, which in turn drives more growth,” House says. “Grocery stores

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Newsline

Co-op developments, coast to coast

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

Co-op extends tree-planting program

The Citrus World cooperative (better known as Florida's Natural, after its orange juice brand) is launching a second, \$10-million tree planting program to help its members replace orange and grapefruit groves ravaged by citrus greening disease (see the March-

has drawn remarkable support from the very beginning," says Bob Behr, CEO of Florida's Natural. "Despite the widely publicized struggles of the Florida citrus grower, we see the interest in our incentive program as a focus for our future and the success of our grower-members. It is exciting to see the continued dedication and

stimulate the planting of 50,000 trees.

Three Farm Credit associations merging

Three Farm Credit associations — based in Illinois, Minnesota and Wisconsin — are merging, effective July 1. Members of 1st Farm Credit Services (Illinois), AgStar Financial Services (Minnesota) and Badgerland Financial (Wisconsin) voted for the merger to create Compeer Financial. The new organization's headquarters will be in Sun Prairie, Wis. Each organization's existing offices will continue to provide local service.

Rod Hebrink, president and CEO for AgStar Financial since 2014, will lead the merged organization. Hebrink served as AgStar's chief financial officer for nearly 30 years.

The board of the merged organization will be comprised of 14 member-elected directors and three outside appointed directors. There will be equitable representation of board members, in proportion to the number of stockholders from each of the three areas.

The boards of the three organizations began exploring a potential merger in February 2016, leading to a unanimous recommendation in August to move forward. Stockholders received ballots and detailed information about the proposal in March, after the Farm Credit Administration granted preliminary approval to proceed. The favorable vote for the merger was announced April 7.

The new organization will operate in 144 counties through 47 offices in parts of Illinois, Minnesota and Wisconsin. It



Many new citrus groves, such as this, will be planted in Florida thanks to the Citrus World (Florida's Natural) cooperative's decision to spend \$10 million on a second round of its Planting Incentive Program. The effort is helping to counter the devastation of citrus greening disease. Photo courtesy Ernst Peters of The Ledger

April issue of *Rural Cooperatives* for a full report on the situation).

The Planting Incentive Program (PIP) began in 2014 when the co-op committed \$10 million to help members plant 1 million trees. This second round for the PIP is expected to add another 1 million trees and 2 million boxes of citrus when the new orchards reach full bearing age.

"The Planting Incentive Program

resiliency of our grower members as they look to the future."

Behr added that Citrus World's financial position is strong and the investment with the growers enables the continued growth of the Florida's Natural brand.

Due to the success of the planting program for orange and grapefruit, the board has also approved the Lemon Planting Incentive Program to

will have \$18.6 billion in assets. The merger provides expanded capital that will help Compeer Financial invest in technology and other resources to support its client base. It also creates a more diverse portfolio that will create additional stability and better position the organization to share its earnings with stockholders through a cash patronage program.

Premier Co-op buys JBS grain elevators

Premier Cooperative, Champaign, Ill., is purchasing three grain elevators — at Royal, Collison and Rossville — from JBS United Inc. of Sheridan, Ind.



One of Premier Cooperative's grain facilities. The co-op is purchasing three more grain facilities from JBS United Inc., pushing its annual grain sales to about 70 million bushels.

The grain marketed through the additional facilities is projected to increase Premier's grain sales to about 70-million bushels annually.

The co-op says the new elevators complement Premier's existing facilities in Champaign, Vermillion, Ford and Piatt counties. The purchase also provides access to markets not currently available to the co-op. Premier will now have facilities on four Class 1 railroads, opening more markets for its members.

A 110-car shuttle train loader on the Union Pacific Railroad at Royal will connect Premier customers to the Southwest United States and the Mexican grain market. The 10-car loader on the CSX Railroad at Rossville ships to the Eastern and Southeastern United States.

Premier provides more than 2,800 members with grain and energy services, and, through United Prairie

LLC, with agronomy products and services.

Premier Cooperative was formed in 2009 with the unification of Fisher Farmers Grain & Coal, Grain Prairie Co-op and Farmers Elevator Co. of Jamaica. Rising Farmers Grain Co. joined Premier in 2011. Through the predecessor co-ops, Premier traces its origins back to the early 1900s.

Dairy groups urge action on Canadian trade issue

U.S. dairy trade organizations are urging the Trump Administration to fight back against "protectionist Canadian trade policies that are slamming the door to American dairy exports in violation of existing trade commitments between the two nations."

The National Milk Producers Federation (NMPF), which represents most U.S. dairy co-ops, the U.S. Dairy Export Council (USDEC) and the International Dairy Foods Association (IDFA) called on the federal government and governors of northern states to take immediate action in response to what they see as "Canada's violation of its trade commitments to the United States."

In a joint press release, the U.S. dairy groups said Canada's new "Class 7" pricing policy is "designed to disadvantage U.S. exports to Canada and globally." As a result, "multiple dairy companies in Wisconsin and New York have been forced to inform many of their supplying farmers that the Canadian market for their exports has dried up. For some farmers, this means that the company processing their milk and shipping it to Canada can no longer accept it starting in May."

Jim Mulhern, CEO of NMPF, says "Canada's protectionist dairy policies are having precisely the effect Canada intended: cutting off U.S. dairy exports of ultra-filtered milk to Canada despite long-standing contracts with American companies."

Tom Vilsack, president and CEO of USDEC, adds: "Our federal and state

governments cannot abide by Canada's disregard for its trade commitment to the United States and its intentional decision to pursue policies that are choking off sales of American-made milk to the detriment of U.S. dairy farmers."

Vilsack, former U.S. secretary of agriculture, also noted that while farm families in the Northeast and Midwest are suffering the immediate consequences of the loss of Canadian markets, "thousands more will suffer if Canada persists in using its programs to distort the global milk powder markets so critical to tens of thousands of American dairy farmers."

Dan Block new CEO at DairyAmerica

DairyAmerica — a federated co-op that is the world's largest dried skim milk marketer — has appointed Dan Block as CEO. Block joined DairyAmerica in 2011, most recently serving as chief commercial officer and leading the company's global sales strategy.

"Dan has the vision, strategy and track record to help DairyAmerica and its members capitalize on the opportunities in the global marketplace and continue to successfully grow our business," says Board President Andrei Mikhalevsky.



Block has spent more than 20 years driving growth for leading dairy and food organizations in global markets. Prior to joining DairyAmerica, he held key sales and leadership positions with Glanbia Nutritionals Inc., Hoogwegt U.S. Inc. and Archer Daniels Midland. Block is a graduate of the University of Illinois-Urbana, with a bachelor's degree in agriculture.

"The opportunities for DairyAmerica are significant, and we have a strong team in place to accomplish our goals as well as traverse

the ever-changing market conditions we face globally,” says Block. DairyAmerica members are: Agri-Mark Inc., California Dairies Inc., O-AT-KA Milk Producers Inc. and United Dairymen of Arizona.

CoBank supports wildfire relief

CoBank — a cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations — is launching a \$150,000 charitable fund to support wildfire relief efforts throughout Kansas, Oklahoma and Texas. Recent fires have impacted farming and ranching communities in all three states, burning hundreds of thousands of acres, destroying property and killing livestock.

In Kansas, an estimated 700,000 acres have burned throughout more than 20 counties in the state’s southwest and central regions. In Oklahoma, about 400,000 acres have burned and a state of emergency has been declared in 22 counties. An estimated 325,000 acres have burned throughout the Texas panhandle.

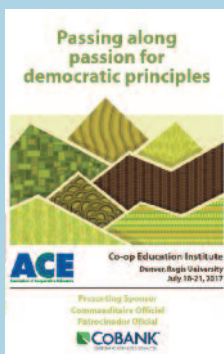
“These wildfires have had a devastating impact,” says Tom Halverson, CoBank’s president and CEO. “CoBank is committed to working with our customers, other Farm Credit organizations and local relief agencies to support farmers, ranchers and other victims of these fires.”

Former Sunkist CEO Russ Hanlin Sr. dies

Russell Hanlin Sr., who was president and CEO of Sunkist Growers for 20 years, has died at age 84. Three U.S. presidents — Jimmy Carter, Ronald Reagan and George H.W. Bush — tapped Hanlin for his experience in global trade. He was appointed to the President’s Advisory Committee for Trade Negotiation, the President’s Export Council and the President’s Commission on Executive Exchange.

Hanlin’s commitment to global trade was also honored abroad, according to

ACE Institute slated in Denver



“Co-op Education for the Next Generation — passing along a passion for democratic principles” is the theme of the Association of Cooperative Educators (ACE) annual institute July 18-21 at Regis University in Denver, Colo. Registration is now open at: www.ace.coop.

In addition to exploring a wide variety of co-op education topics, the conference will include study visits to cooperatives in the Denver area, as well a visit to the state’s majestic Rocky Mountains.

Among topic “tracks” for the institute are:

- **Platform solutions** — The internet has opened ways that people can work together to offer services and goods. Does co-op education have a place in helping people keep control of their work products?
- **Co-ops are no longer on the fringe** — universities are introducing more programs to teach about co-op solutions. Explore these programs and their potential to expand co-op understanding and use.
- **Back to basics** — Re-emphasizing education for members and employees about democratic organizations and co-op principles is essential.
- **The GIGabyte economy and co-ops** — Explore new ways co-op educators and developers can help workers to navigate cooperative ownership.

ACE is an organization of cooperative researchers, leaders, educators, practitioners and developers. Formed in 1952, the association bridges geopolitical, cultural and language barriers to unite cooperative educators throughout the United States, Canada and the Caribbean.



Attendees at a recent ACE Institute gather for a “selfie” photo. This year’s conference in Denver will explore a wide range of issues that should help advance the state of co-op education efforts in North America. Photo courtesy ACE

Sunkist. Hanlin was inducted into the World Trade Hall of Fame for his work in opening overseas markets to American products and received the Maple Leaf award for promoting trade and understanding between the United States and Canada.

The Emperor of Japan awarded Hanlin a national decoration for meritorious service and distinguished achievement for his role in creating a positive business relationship between the United States and Japan. He chaired the Los Angeles Vancouver Sister City Committee and the Japan America Society of Southern California.

He served as chairman of the National Council of Agricultural Cooperatives and of the United Fresh Fruit & Vegetable Association and was a member of the U.S./Hong Kong Economic Council.

Record profit for DFA

Dairy Farmers of America (DFA) had net income of \$131.8 million for 2016, up from \$94.1 million for 2015. The increase was attributed to higher sales volumes, overall operating efficiencies and lower commodity input costs. The record earnings were also buoyed by the acquisition of the remaining 50-percent equity interest in DairyConcepts, a manufacturer of cheese, dairy ingredients and dairy flavor systems that operates eight facilities.

DFA's net sales of \$13.5 billion for 2016 were down from \$13.8 billion in 2015, primarily due to lower milk prices. The U.S. annual average all-milk price was \$16.24 per hundredweight in 2016, compared with \$17.12 per hundredweight in 2015.

"Being owned by dairy farmers, we are always working to strengthen our milk marketing business and to bring value to our dairy-farmer members," says Rick Smith, president and CEO. "While 2016 was a year of challenges for many of our farmers, DFA itself continues to grow and remains focused on continuing our

investments in new and existing plants, as well as progressing on our strategic initiatives."

In 2016, DFA marketed 62.6 billion pounds of milk for both members and others through the cooperative's consolidated businesses, which represent about 29 percent of the nation's total milk production. The average 2016 price paid to members per hundredweight of milk was \$16.22, compared to \$17.18 in 2015.

Cash distributed to members in 2016 totaled \$42 million, compared to \$35 million in 2015. Members received \$21 million in equity retirements and \$21 million of allocated patronage dividends.

The co-op in 2016 announced plans to construct a new cheese plant in Michigan with Glanbia PLC. This project is driven by Michigan's growing milk supply and an increasing worldwide demand for dairy products. Foremost Farms USA and Michigan Milk Producers Association co-ops are also involved in the project.

Pearson to succeed Locken at Wheat Growers Co-op

Dale Locken, CEO of Wheat Growers (formerly South Dakota Wheat Growers), will be retiring Aug. 1. Locken has served almost 15 years at the helm of the Aberdeen, S.D.-based grain cooperative.



He will be succeeded by Chris Pearson, Wheat Growers' current chief operating officer.

Under Locken's leadership, the cooperative expanded grain storage, upgraded grain-handling facilities, added shuttle-loading facilities and expanded its agronomy service centers. Wheat Growers also developed a strong,

effective safety culture that today has become a model for the agriculture industry.

Wheat Growers Board President Hal Clemensen credited Locken for adapting the cooperative to meet the current and future needs of its members, "assuring that the co-op remains innovative, progressive and relevant for generations to come."

"I have been honored to work with the tremendously talented, extremely dedicated Wheat Growers employee team, who strive every day to provide outstanding service to our 5,100 farmer-member owners," Locken says. "It has been the most rewarding and inspiring period of my professional career in agriculture."

Pearson was the board's unanimous choice as the new CEO. He joined Wheat Growers as senior vice president of operations in 2013 and was promoted to chief operating officer last year. A native of Corning, Iowa, Pearson spent 14 years in local co-op systems there, rising from an entry-level job to chief operating officer.

He also serves as board president of Dakotaland Feeds and is a member of James Valley Grain Cooperative and the Agriculture Retailers Association, among other memberships. He has an undergraduate degree in agriculture studies from Iowa State University.

"Chris is passionate about farmer success, deeply knowledgeable in what it takes to run a successful cooperative and firmly committed to the employees who support our farmer-members," Clemensen says. "In this challenging agriculture climate, we knew we needed a CEO to align with our strategy and culture."

Fenske CEO at Co-op Grain & Supply

Cooperative Grain and Supply, Hillsboro, Kan., has selected Jerry Fenske as its new CEO. Fenske has most recently been serving as general manager of the Leavenworth County Cooperative Association in Lansing. Prior to that, he was manager of the co-

op's energy department.

Fenske started his cooperative career working for the Farmers Cooperative Association, Manhattan. He is a graduate of the University of Kansas. He began the new job on April 1.

Keller to lead Accelerated Genetics

Janet Keller has been hired as president and CEO of Accelerated Genetics, a livestock breeding cooperative based in Baraboo, Wis.



Keller had previously served as the co-op's vice president for communications, public relations and advertising. Most recently, she was employed by World Dairy Expo

as the communications and public relations manager.

Keller brings more than 23 years of industry experience to her new job, including management, marketing, herd analysis, photography, distribution, training, semen inventory management and animal health product knowledge. The co-op believes that Keller's extensive communication experience, along with her cooperative business knowledge, will help move the company forward.

She will direct initiatives at the co-op to increase gross profits and sales while reducing expenses and making the cooperative more member-focused, according to an article in the *Wisconsin State Farmer*.

Green City Growers nears profitability

Green City Growers, a worker-owned urban farming co-op in Cleveland, is approaching profitability, according to a March article in *Cleveland Scene* magazine. The co-op operates one of the nation's largest hydroponic greenhouses, covering 3.2 acres in an economically depressed part of the city.

Opened in 2012, the co-op has yet to be profitable. That should change this year, according to Jeremy Lisy, the co-op's vice president for sales.

"When I came here, we had 15 people working and the greenhouse was 60-percent empty," he explains. "They didn't know what to grow or who to sell it to. Some of the products they were

Valley Ag, where he was senior vice president of strategic projects. Before that he was vice president/relationship manager for CoBank and was the owner of Heartland Strategies Business Consulting.

Grawe's "background and experience will be a valuable asset for CAS as we develop new opportunities for the three



Hydroponically grown crops thrive inside the giant greenhouse of the Green City Growers cooperative in Cleveland.

growing weren't right for chefs," he told *Cleveland Scene*.

Lisy talked to chefs around the city to see what they wanted, then added different types of lettuces for the co-op's packaged blends, and sales shot upward. This year the co-op expects sales to top \$3 million, double the sales of two years ago and enough to push the operation into the black.

Grawe new CEO at Consolidated Ag Solutions

Jeff Grawe has been named president and CEO of Consolidated Ag Solutions Inc. (CAS), where he succeeds Robert Dude. CAS is a cooperative formed in 2015 to create strategic advantages for three ag cooperatives: Central Valley Ag in York, Neb., Landus Cooperative in Ames, Iowa, and Wheat Growers (formerly South Dakota Wheat Growers) in Aberdeen, S.D.

Grawe comes to CAS from Central

cooperatives and their respective member-owners," says Carl Dickinson, CAS board chairman.

Grawe has a BA in finance management from Loras College in Dubuque, Iowa, and an MBA in Finance from Rockhurst College in Kansas City, Mo. He is also a graduate of the Land O' Lakes Executive Development Program and the Institute for Cooperative Leadership at the University of Missouri in Columbia, Mo.

NFU opposes Dow-DuPont merger

Following European Union approval of the proposed merger between Dow Chemical Co. and DuPont Co., National Farmers Union (NFU) is calling on the Trump Administration to block the deal. The merger, if approved by the U.S. Justice Department, would create the largest biotechnology and

seed firm in the nation.

“The reduction in competition that would be wrought by a Dow-DuPont merger will result in less innovation, higher prices and less choice for farmers,” says NFU President Roger Johnson in a letter to President Trump. “Given the damaging and lasting effects this merger will have on family farmers and rural America, we urge you to oppose this merger.”

Johnson noted that the Dow-DuPont merger occurs amidst a massive wave of consolidation in the agricultural inputs sector. The combination of the two companies, coupled with the concurrently proposed mergers of Bayer-Monsanto and ChemChina-Syngenta, threatens to limit major players in the agrichemical and seed sectors to just four companies. That is bad news for farmers who rely on competitive pricing for their inputs, Johnson says.

“The merger of Dow and DuPont, the 4th and 5th largest firms, would give the resulting company about 41 percent of the market for corn seeds and 38 percent of the market for soybean seeds,” says Johnson. “If the Dow-DuPont and Bayer-Monsanto mergers were both approved, there would effectively be a duopoly in the corn and soybean seed markets.”

Carolina to hold co-op youth camp

Cooperative Leadership Camp, hosted by the Cooperative Council of North Carolina (CCNC), will be held June 19-23 at the FFA Center in White Lake, N.C. The five-day resident camping program features interactive workshops and presentations, team-building activities and recreation, plus small group sessions with an emphasis on how cooperatives operate.

To be eligible for the camp, a participant must be a rising high school sophomore, junior or senior and have at least one letter of recommendation from a co-op sponsor or school staff member. The student must also be sponsored by a CCNC member



Team-building exercises such as this will be part of the Cooperative Leadership Camp, hosted in June by the Cooperative Council of Carolina.

cooperative or by 4-H (CCNC can help connect students with possible sponsors).

Campers must possess an interest in developing their leadership skills. For more information, contact the CCNC office at (919)-834-5544, or e-mail: emily.nail@ccnc.coop. Registrations are due June 1.

Organic farms show continued growth

The organic food industry continues to grow domestically and globally, with 24,650 certified organic operations in the United States and 37,032 around the world, according to USDA. The 2016 count of U.S. certified organic farms and businesses reflects a 13-percent increase between 2015 and 2016, continuing the trend of double-digit growth in the organic sector. The number of certified operations has increased since the count began in 2002; this is the highest growth rate since 2008.

Organic certification is an “opt-in” voluntary standard that is managed through a public-private partnership. USDA accredits and oversees about 80 businesses and state governments that directly certify organic farms and businesses.

The complete list of certified organic farms and business is available through

USDA’s Organic Integrity Database at: <http://organic.ams.usda.gov/integrity/>. Launched in 2015, the database discourages fraud by providing more accurate and timely information about operations certified to use the USDA organic seal.

Wisconsin supply co-ops pursue merger

The boards of Country Visions Cooperative, Reedsville, Wis., and Kettle Lakes Cooperative, Random Lake, Wis., have signed letters of intent to pursue a merger. Merger discussions began after the co-ops first agreed to form a joint venture to build a new, state-of-the-art agronomy facility in Plymouth, Wis.

Country Visions is a farm supply cooperative operating in eastern Wisconsin and in the Upper Peninsula of Michigan. It has annual sales of \$158 million from divisions for agronomy, grain, petroleum, propane and retail stores. Country Visions is also a 60-percent owner of CP Feeds, which manufactures and sells more than \$146 million in feed to area farmers.

Kettle Lakes Cooperative is a farm supply co-op in eastern Wisconsin currently operating just south of Country Visions trade area. Kettle Lakes annual sales of \$40 million come from agronomy, grain, feed and retail. Kettle Lakes is also a 50-percent owner of Co-Energy Alliance, which sells petroleum and propane.

Membership voting is scheduled in late June. If approved by members, the joint organization will begin business on Sept. 1, says Country Visions CEO Steve Zutz. Member information meetings will be held prior to the vote.

Co-op leaders say the merger will result in better purchasing power for the co-op and new joint operations that drive efficiencies for the business. ■

Utility Co-op Connection

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and shopping venues follow the rooftops, which follow jobs. We're always planning 10 years ahead in our area."

Sawnee's territory has also experienced a recent surge in commercial retail growth. As both residential and commercial facilities expand in Sawnee EMC's service area,

more labor is required to maintain dependable electric service — an especially critical factor for business operations. Expanding facilities require additional labor to install and maintain the system, bringing even more jobs into the area.

Ensuring that internet access is available is also vitally important all customers. "High speed broadband today is somewhat comparable to electrification a century ago," says House.

Part of the reason why Sawnee is so

focused on providing reliable, affordable electricity to help sustain and generate growth is simply the result of a "co-op mindset."

House explains: "In many ways, we don't have customers — we have owners. We need to do all we can to serve our owners, and that includes free energy audits, donations to civic organizations and working locally to help one another. It's ingrained in how we were formed almost 80 years ago. It's in our blood." ■

Management Tip

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(NOLs). Witnesses objected to the Blueprint's proposal to limit these provisions.

Deductions for business expenditures — The Blueprint would allow an immediate deduction for the cost of business investment in equipment, building and intangible assets, but not land. On April 26, Mnuchen said that the administration also favors an immediate write-off for business capital expenses (*Wall Street Journal*, April 27).

Farm Bureau expressed support for

current law provisions under Internal Revenue Code Section 168 that allow for accelerated cost recovery for business expenses, including write-offs of equipment, production supplies and pre-productive costs. This provision can be coordinated with Internal Revenue Code Section 179, under which farmers can choose to immediately deduct up to \$510,000 (indexed for inflation) in expenditures for equipment. Witnesses also argued to keep provisions of current law that allow producers to deduct soil and water conservation expenditures, the cost of raising livestock and the cost of raising crops.

Other special rules for agriculture — Witness Christopher Hesse, of Clifton Larson Allen LLP, a certified public

accounting firm, called attention to additional special provisions that farmers have under current law that could potentially be lost under tax reform. For example, farmers have flexibility on when they can recognize the receipt of crop insurance proceeds. Farmers also can take advantage of flexible taxation of Commodity Credit Corporation loans; they can pay tax on a loan when received, or treat the loan as a true loan.

When a crop is sold, the farmer can repay the loan and get a deduction. If the loan is treated as a true loan but is forfeited, the farmer recognizes income. Further, special rules are available under current law to defer livestock sales. ■

A Born Cooperator

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person behind these seeds, not just a company."

Nguyen would like California farmers markets to require that any wheat-based products sold include 20 percent local, whole grains. "I got the idea from New York, where they require 15 percent local grain content in baked products; it has been very helpful for their grain farmers."

Nguyen is working with a commercial baker who uses whole grains, with the goal of creating

technical information to share with commercial bakers, because "there is a learning curve to incorporating these whole grains into their products."

In January, Nguyen visited six farmers markets in Los Angeles County to make the pitch for supporting products with local whole grains. "Places like Beverly Hills are starting to get the whole-grain gospel!"

Ultimate goal: solving problems

With so many "oars in the water," what is a good day like for Nguyen?

"That would be when the phone rings about 6 a.m., and it's a call from a farmer co-op I'm working with. The

caller is excited because the members just had a really good meeting and are making progress toward a goal, like acquiring a shared-space facility.

"Then I would get to interact with some partners we are working with to create new jobs...and helping socially disadvantaged farmers, because there are still so few resources for them."

Ultimately, Nguyen sees the core of a co-op facilitator's work as being a problem solver.

"I like brainstorming with people to help them find ways to solve problems. I want them to feel like they have the tools needed to make progress. That comes from working together to share knowledge." ■

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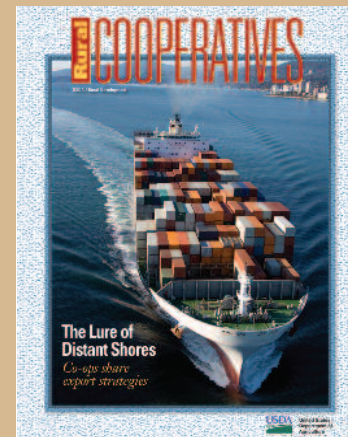
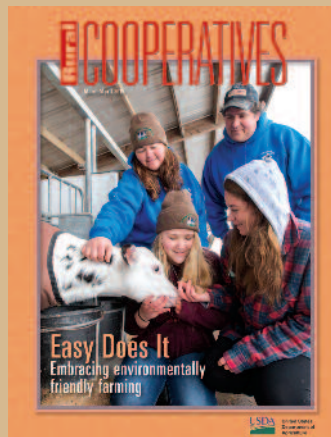
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