

Co-op 101: How A Co-op is Different and Why It Matters

Iowa Cooperative Intern Day
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Objectives

- Definition
- History & Legal Authorization
- Structure and Control
- Capitalization and Ownership

What Is A Cooperative?

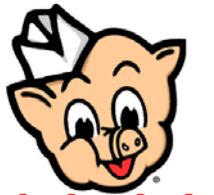
(Definition and Scope)

Cooperatives are...

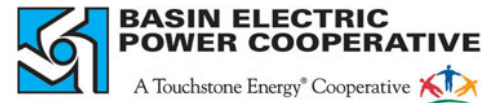
- **User-owned** - members provide equity to the cooperative (capitalization function)
- **User-controlled** – members control and oversee the cooperative's operation (governance function)
- **User-benefitting** – members have residual claim to profits and assets (patronage function).



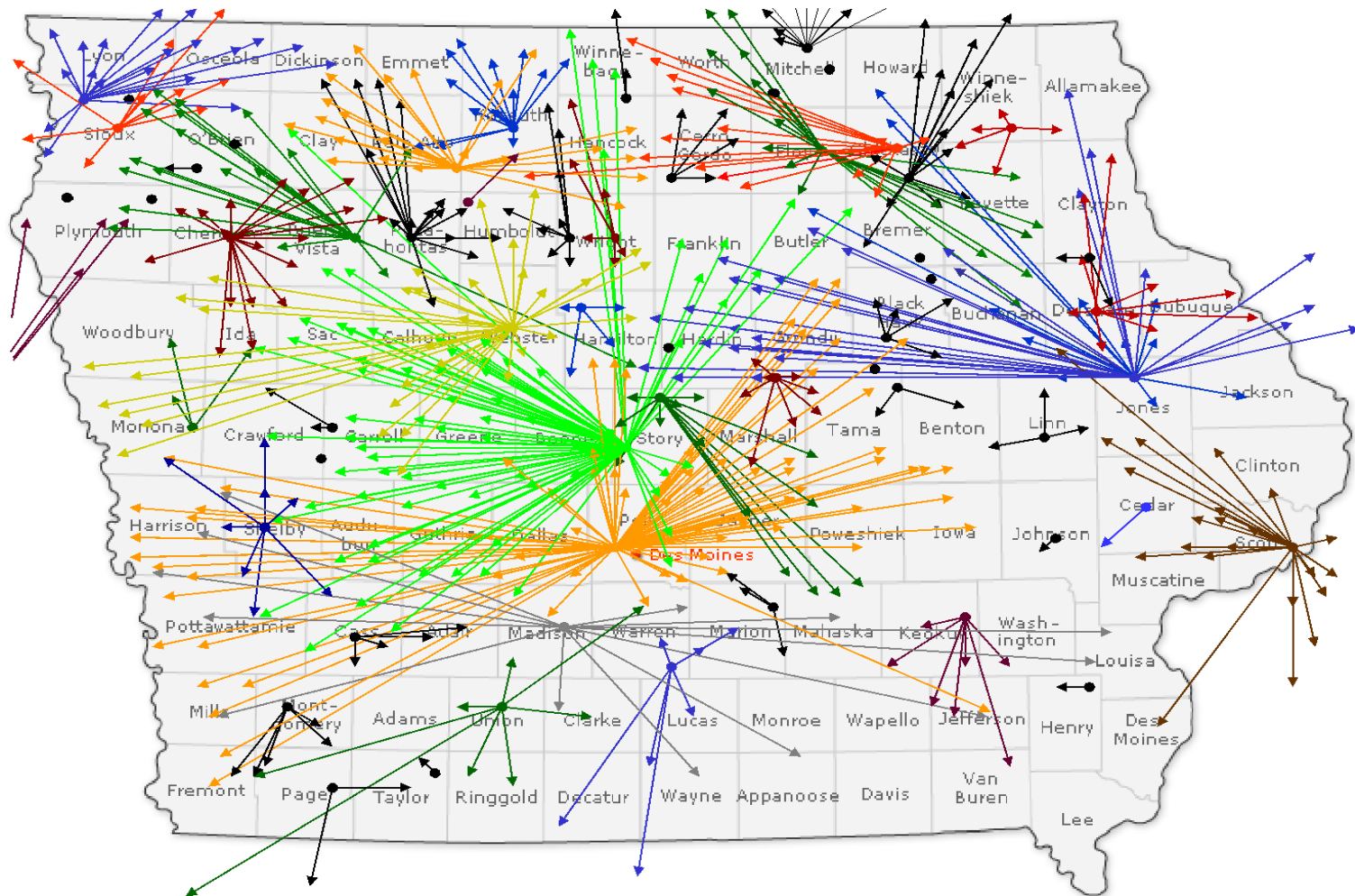
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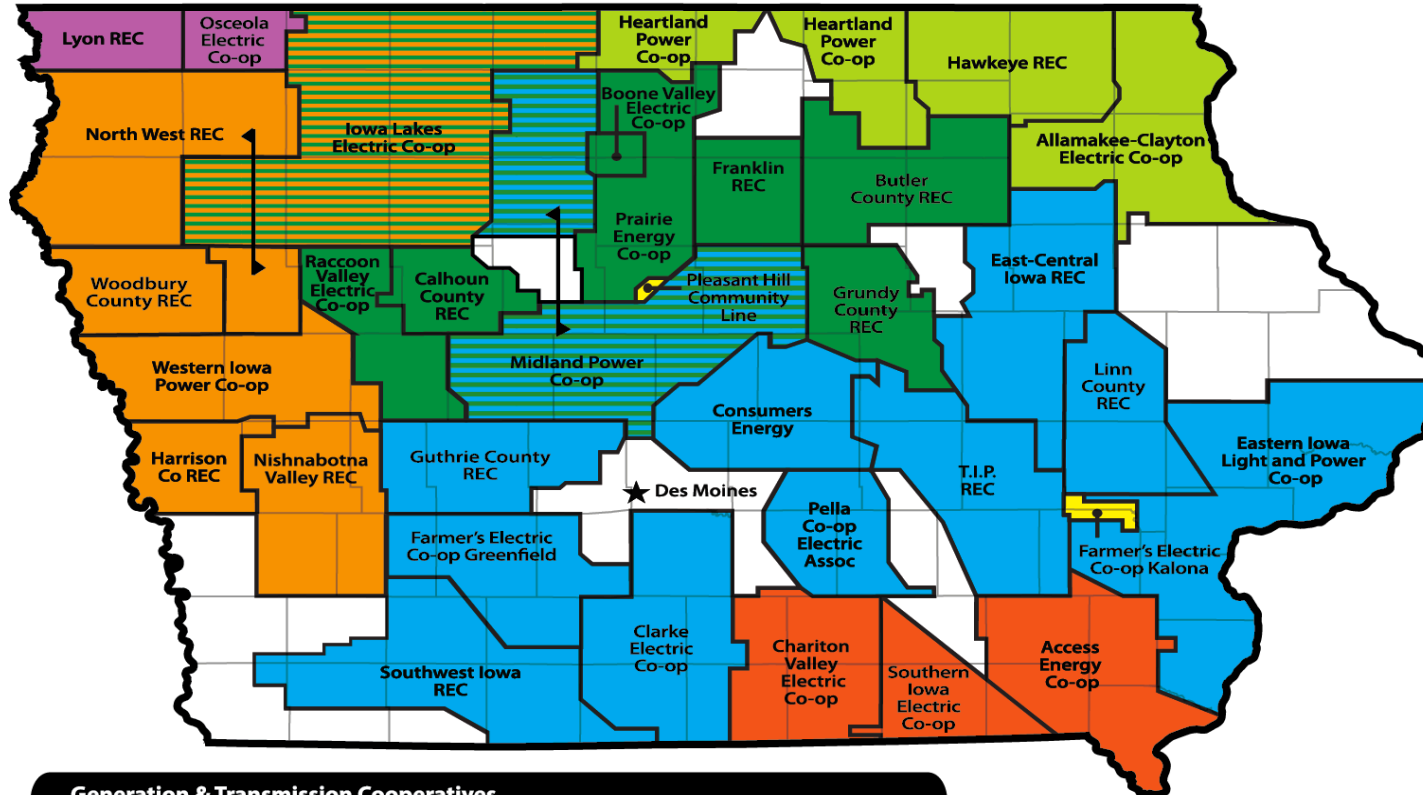


Grain and FS in Iowa



Electric Cooperatives

Distribution Cooperatives



Generation & Transmission Cooperatives

- | | |
|--|---|
|  Central Iowa Power Cooperative |  Corn Belt Power Cooperative* |
|  Dairyland Power Cooperative |  L & O Power Cooperative* |
|  Independent |  Northwest Iowa Power Cooperative* |
|  Northeast Missouri Power Cooperative | |
- * supplemental power supplied by Basin Electric Cooperative

Other Types

- Telecommunications – Heart of Iowa
- Credit Unions – Community Choice CU
- Housing – Village Cooperative
- Food Hub and Direct-to-Consumer – New Pioneer Food Co-op

The Difference (by example)

Innovative Ag Services (Cooperative)

Owned by: Farmers

Controlled by: Farmer-elected
board of farmers

Benefits to: Farmers

In Business For: Farmers

Income Tax Paid by: Farmers **or**
IAS

ADM

(Investor-Owned Firm)

Owned by: Shareholders

Controlled by: Shareholder elected
board of industry execs

Benefits to: Shareholders

In Business For: Shareholders

Income Tax Paid by: Shareholders
and ADM

Why Do We Have Cooperatives?

(History and Legal Authorization)

U.S. Agricultural Cooperative Foundation

Producers recognized the need for and benefits to acting collectively to:

- Get fair prices for their outputs
- Access products and inputs at market prices
- Reduce their joint costs of selling and buying through economies of coordination and size
- Pool risk
- Benefit from increased market power through profits

Cooperatives are the “competitive yardstick”

Cooperatives Arise from Needs

Farmers Cooperative Elevator – Marcus, Iowa

- Oldest active cooperative elevator in the U.S. (now operating as First Cooperative Association)
- December 12, 1887
- 161 grain producers invested \$20 each
- Producers during 1880s averaged 25 bu/acre of corn @ \$0.40/bushel farm price

Legal Authorization

Federal Law: **Capper-Volstead Act (1922)**

State Law: **Iowa Code, Chapter 499 (1935) and corporate statutes**

Co-op Authorization: **Articles of Incorporation and By-Laws**

Legal Authorization

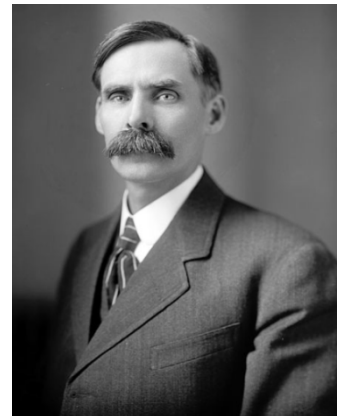
○ 1922 Capper-Volstead Act

Full Title: An Act To Authorize Association of Producers of Agricultural Products.

Authors

- Senator Author Capper (Kansas, R)
- Representative Andrew Volstead (Minnesota, R)

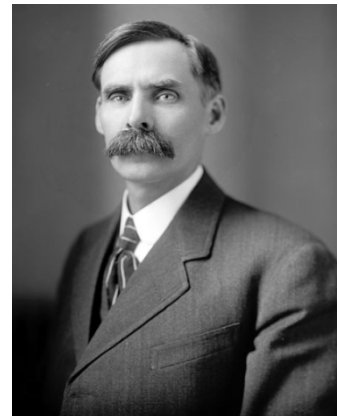
Allows producers to organize voluntarily to produce, handle, and market farm products to improve their terms of trade.



Cooperative Exemption from Antitrust

Capper-Volstead Act **Requirements:**

- One member one vote OR limit dividends on non-farmer equity to 8%
- Member business must be greater than non-member business
- All voting members must be agricultural producers (production at risk)
- Association must operate for the benefits of its members



Principles of Cooperation

Benefits

- ✓ Income distributed to patrons proportional to patronage
- ✓ Limited dividends on equity capital

Control

- ✓ Voting by members
- ✓ Open membership

Principles of Cooperation

Ownership

- ✓ Equity is provided by patrons, may be limited or proportional to patronage

Others

- ✓ Duty to educate
- ✓ No unusual assumption of risk
- ✓ Political and religious neutrality

Who Runs The Cooperative?

(Governance)

Ultimate Responsibility for the Co-op Rests with the Members

Members elect the board

- Annually, a few board seats are up for election
- Each co-op member gets one vote (equal voting)
- The board is responsible for creating the **strategic vision and plan** and overseeing its implementation.

The Board hires the GM / CEO

- The GM is responsible for **operational vision and planning.**

Who Owns The Cooperative?

(Profitability, Patronage and 'Residual Claim')

Cooperatives must be profitable

Profitability is necessary for...

- Financial sustainability of the cooperative
- Ability to reinvest in assets and productive resources
- Ability to revolve equity
- Funds for growth

Patronage Is...

- ...a cooperatives adherence to the “service at cost” principle, and
- ...a distribution of co-op profits (aka “savings”) to those who did business with the cooperative.

How?

- Cash
- Allocated equity (retained at the co-op)

Example: You Are a Farmer...

...with 500 acres in corn. You are the poster-child member, buying all your inputs and selling all grain through the co-op.

- Bushels marketed: 200 bu/acre
- Inputs purchased: \$308.35/acre

The co-op has released their annual report and announced patronage rates for the year:

- 3.70 cents per bushel of grain
- 3% of agronomy business

They will pay 60% as cash and the rest (40%) as retained allocated equity (this is the capitalization function).

Patronage Example

Total Patronage per acre =

- 200 bu/a * \$0.037/bu, plus
- \$308.35/acre * 3%
- = \$8,325.25 on 500 acres

Cash Patronage

- 60% * \$8,325.25 = \$4,995.15

Allocated equity

- 40% * \$8,325.25 = \$3,330.10

Income Tax paid by member

- 18% * \$8,325.25 = \$1,498.55

Then What?

- Eventually the farmer gets that equity back

When? Depends on profitability of cooperative!

- If good profitability: sooner than later
- If not profitable: maybe never
- On average in Iowa \approx 12 years

Who Owns The “Stuff”?

MEMBERS jointly own the assets that the employees are entrusted with!

- Grain bins, dryers, feed mills
- Fertilizer, seeds, tanks, all inventory
- Equipment, Vehicles, Computers, Buildings, Land

As an employee or intern, what is your responsibility for the assets?

Questions?

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