

**USING THE COOPERATIVE MODEL TO PROVIDE
BASIC COMMUNITY SERVICES IN RURAL AREAS:
A FEASIBILITY STUDY**

**PREPARED BY NORTHCOUNTRY COOPERATIVE
FOUNDATION'S
CENTER FOR COOPERATIVE ENTERPRISE AND INNOVATION**



Northcountry
Cooperative
Foundation

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INTRODUCTION

Northcountry Cooperative Foundation undertook a study of the use of a community ownership cooperative business model in rural areas to determine whether cooperatives of this type – enterprises created or purchased by community members, primarily for the reason of preserving jobs or serving the broader community – can be a successful tool for economic development. We studied six such community-owned businesses in small towns in Wyoming, Wisconsin, Minnesota and Montana. What we found was a nascent movement to be sure, but one that could have real potential for building locally-based economies. In the samples we studied we found that to varying degrees, community ownership provided a successful economic development strategy, even in the hardest markets to serve. The community-owned businesses we studied and others like them are forming in towns across the West and Midwest in response to the traditional business community's reluctance to serve remote or small populations. The legal structure of these community-owned enterprises varies. In this study we interviewed representatives of cooperatives, community-owned corporations, and Employee Stock Ownership Plans (ESOPs). We believe, that with greater commitment from technical assistance providers, more community-owned businesses will choose the cooperative model.

We conducted our research to answer three fundamental questions:

1. Is a community-owned business structure currently being used to facilitate economic development in rural areas?
2. Are there examples of community-owned businesses that the cooperative community can use to replicate their success?
3. What can we, as a technical assistance provider, do to facilitate the development of community-owned cooperatives in rural communities?

Interviews with representatives of community-owned businesses were contacted between June and September, 2004, and were selected at the suggestion of technical assistance providers around the country. We spoke with economic development entities, cooperative members, and company staff. The same questions were asked of each interviewee, and the case studies are structured to include information on; a business description, its history and how and why it was founded, its organizational structure, membership benefits and challenges, and the business's community impact. Participants included two community-owned clothing stores, a grocery delivery business, a cheese production plant, a joint-powers government cooperative, and a cooperative pharmacy that is currently in development.

We hope that these case studies will be useful in mapping a path to the development of community-owned cooperatives in markets where community needs are not currently being served.

COMMUNITY CO-OP CASE STUDIES

The Mercantile

Powell, Wyoming, population: 5,373

Interviewee: Sharon Earhardt, Executive Director, Powell Chamber of Commerce

Co-op Business Description

The Mercantile operates as a full-line clothing store in Powell, Wyoming, a town of 5,200 people. There are 10,000 residents in the store's direct market, although the store attracts customers from as far away as Cody, Wyoming. The department store does not compete solely on price, but rather provides a wide selection of clothing at different price points. In addition, the store prides itself on its customer service. The clothing buyer knows the market and will go out of his way to carry or special-order items that an individual requests. Recently the store expanded into its basement space to broaden its children's department.

Organizational History

Over the course of the late 1990s, The Stage Company, a regional chain that had retail department stores across the West, began closing stores in smaller communities. In 2001, the Stage store in Powell became its latest victim. When this store closed, the downtown business district lost a major anchor, and many businesses relocated elsewhere. After six months of contacting major chain retailers including TJ Maxx, Walmart, and Kmart without success, the Executive Director of Powell's Chamber of Commerce heard about a community-owned cooperative clothing store in Plentywood, Montana. When she visited, she found it to be a very professional and successful place- and she thought Powell was a perfect market for a similar community-owned business.

The retail strategies committee began mulling over the idea of a community-owned clothing store soon after this visit, and quickly formed an outside committee to shepherd the business through the process. When invitations to join the task force went out to prominent community leaders and retired professionals, they received an enthusiastic response. A group of Powell citizens began to meet every Monday at 4pm to wrangle through the task of setting up a community-owned business. Members came from all walks of life and included retired bankers, accountants and attorneys. In addition, the former clothing buyer at the Stage Department Store came on board to offer his retail expertise.

The task force thought that a community owned store would be well-received by Powell residents, and a market study conducted by students at the local university confirmed this. Task force members contacted local recreation groups, women's groups, feed growers and local business leaders to find out what they would like to see in the store, and the current inventory reflects this dedication to the needs of the community.

The task force was committed to taking on as little debt as possible, and when the store finally opened, the corporation had less than \$1,000,000 in loan debt. In addition, the corporation has about \$100,000 in reserves which it invests in four local banks. In this way, no one bank is favored, and each local bank reaps some benefit.

Organizational Structure

After much legal discussion, the task force formed a corporation and began selling shares. The group was reluctant to have to deal with paying patronage dividends, and for this reason they decided not to incorporate as a cooperative. Instead, the conventional corporation was marketed as a way for each Powell resident to invest in their community. Each share cost \$500, and a single person was limited to owning twenty shares, so that no one person could own a controlling number of shares. In addition, Wyoming residency was a requirement to purchase shares.

Sharon was astounded by the community's support and willingness to contribute. "People came forward in grand style," she commented. Several residents took their savings out of the stock market and bought several shares of stock in the store. Because securities laws hold that shareholders be at least 18 years old, several young people used their savings to buy shares in their parents' names.

The store itself employs one full time employee/manager. In addition, staff includes between six and eight part time employees. The store has already become so successful that they've expanded their children's section into the basement of a nearby store: it has become the "Tots to Teens Corner." The store is opened seven days a week, Monday through Saturday, 9am to 6pm and Sunday 12pm to 5pm. They took a gamble in scheduling hours throughout the week, but it's paid off and the store is reportedly busy everyday.

Membership Benefits

Because the store is a corporation and not a cooperative, the shareholders early on decided that there would be no in-store membership benefits. Not only would this be an "accounting nightmare," they would be better protecting the shareholders' investment by not providing those kinds of discounts. Instead, the most important benefit of investing in this business was the impact it has had on the community. The development of the clothing store actually reversed the out-migration of downtown businesses. The space left vacant by the Stage Department Store is now occupied by The Mercantile, two gift shops and a beauty salon. These businesses have acted as an anchor with such a strong pull that businesses who'd left the main drag in Powell actually relocated back downtown.

Membership Challenges

Working with so many partners could have presented an organizational challenge. Sharon emphasized that working with people who had the right intentions and wanted what was best for the community, instead of themselves, helped make the task force successful. She recommended that all stakeholders “leave their ego at the door” and forego personal benefit for the broader good of the community.

The corporation was faced with immediate challenges when they began to sell shares, which took longer than anticipated. They sold shares over Christmastime, which Sharon believes was poor planning: nobody wants to buy a share of stock during the holidays. This timing caused the store to open six months later than originally planned.

Community Impact

Community benefit was felt almost immediately. The community-owned store created so much publicity when it first opened, that “the Merc” became a tourist attraction. Many shoppers come from as far away as Cody, which is home to both a Walmart and a Kmart. This helped energize a downtown that had previously been in decline. The store, which topped its \$500,000 sales projections during its first year of business, has also acted as a model for towns such as Colstrip, Montana; Ely, Nevada; and Worland, Wyoming. People from as far away as New York have contacted the corporation with inquiries into how to start their own community-owned department stores.

Sharon believes that the largest community benefit is that of having a fully-functioning downtown, where the parking spots are always filled and businesses actually want to be there. She and others are particularly proud that the community was able to engender its own economic revitalization, instead of relying on outside sources.

Got Socks**Colstrip, MT, population: 2,346****Interviewee: Jim Atchison, Executive Director, SouthEastern Montana
Development Council****Mission**

To be determined.

Cooperative Business Description

Got Socks is a business still in development. When it opens, Got Socks will be a full-line family clothing store that will provide area residents with everything from shoes to underwear, especially much needed items like boots and bib overalls. The store will carry goods of middle-of-the-road quality and price points. They are not going to emulate the large discount chain stores like Wal-mart. Nor will they try to be Bloomingdale's.

In addition, locally produced goods will be highlighted, including silk-screened t-shirts made on the nearby Indian Reservation, and alpaca gloves, scarves and socks produced on a local farm. A portion of the space will also be used to promote the high school booster club's activities by selling t-shirts and other goods.

Organizational History

Interestingly, Colstrip, population 2300, has not hosted a retail department store for some time. Colstrip is home (as the name indicates) to a strong coal mining and power generating industry. The town is new, settled only in the 1970s. It began as a company town and, as such, does not have a tremendous base of well-established businesses. The community is generally prosperous and active- and they generally take their earnings and spend them in places as far away as Billings, Montana or by ordering their clothing over the internet. SEMDC felt that there was no reason why, if somebody provided a local clothing store, local residents wouldn't patronize it.

After hearing about several other community-owned clothing stores, the local development corporation began investigating whether or not the local community would support a similar kind of retailer. Two surveys showed that there was strong interest in the development of this kind of clothing store, and coupled with their understanding that Colstrip was a relatively prosperous town, SEMDC felt that a community-owned store would be a success.

Community-ownership was also attractive as a spark for further economic development. The town is particularly eager to host a downtown business because there is currently 30,000 square feet of empty retail space downtown, remnants of a building whose out-of-town owners raised rents so high that they pushed out all of the tenants: the local ACE Hardware and medical center both left to build their own buildings, rather than pay the unusually high rents. After the tenants were pushed out, the building sat empty for a long period, until two years ago when its ownership was turned over to the city. The clothing

store will occupy part of the space, and the City Hall will act as the anchor. The remaining square footage may be occupied by a Pizza Hut, a coffee shop, and several businesses that are currently operated out of people's homes.

Organizational Structure

To decide on the store's legal structure, the development council established a nine-member community task force. The cooperative concept made good sense to the majority of the committee's members, many of whom had experience either with unions or local agricultural cooperatives. They began talking with lawyers who had expertise in cooperative law, as well as the Cooperative Development Center, an office funded by the USDA's Rural Development office in Montana. In 2003, the task force voted to incorporate as a cooperative and began selling shares. The estimated cost of opening the community-owned business is \$240,000, of which \$91,000 has already been raised. The remaining balance will be loaned to the cooperative by First Interstate Bank of Colstrip.

Currently, the co-op has close to 300 shareholders. Residents can buy common stock at \$300 per share or Preferred Stock at \$50 per share. Common stock is restricted to one share per person and confers upon the shareholder the right to vote on cooperative decisions and participate in the patronage dividend. A shareholder could purchase an unlimited number of Preferred stock shares, which carry no voting rights. The only requirement for someone to purchase shares in the cooperative is that they be a Montana resident. Most shareholders live within a 200 mile radius of Colstrip.

Membership: Benefits

The most important benefits for Colstrip include local control and ownership of a business that provides important goods to the community. The cooperative has discussed the option of creating in-store shareholder discounts; the specifics of that kind of program haven't yet been decided. Most important to residents include the convenience of having a clothing store in town, the creation of new jobs in the town proper and the anticipated domino effect which would revitalize their downtown business district.

Membership: Challenges

The task force received substantial assistance from both the Small Business Administration and the Montana Cooperative Development Center. The Small Business Development Center assisted them in creating a business plan, doing cash flow projections, and engaging in financial planning. In tandem with the Montana Cooperative Development Center, which steered the task force through the vagaries of Montana state law including helping them develop the correct set of legal documents, these technical assistance organizations provided the newly-formed cooperative with support that expedited the development process.

The membership process was also slower than anticipated. Though residents were enthusiastic about the cooperative clothing store, it took longer than expected to sell the

number of shares necessary to induce the bank to lend to the cooperative. In addition, it was a challenge to build and manage partnerships between everyone involved in the revitalization of the downtown mall.

Community Impact

The anticipated economic benefits to the community of Colstrip can not be overstated. SEMDC is hopeful that this development strategy of engaging the community in participating in local businesses will initiate a ripple effect of development across business sectors in the community. Using the community clothing store as an anchor for the empty mall space has encouraged more than six business owners to commit letters of interest to the city on behalf of the revitalization effort. According to Jim Atchison, Executive Director of SEMDC, 80% of the mall could be occupied if it opened today. The mall will provide a locus of community activity, a source for locally-based employment and create a climate of activity that will hopefully spur further growth and economic stability.

Just Local Food**Eau Claire, WI, population: 61, 704****Interviewee: Aaron Ellringer, Founding Member****Mission**

Not yet determined

Business Description

Just Local Food began in January of 2004. They provide home delivery of locally grown organic produce and facilitate a buying club for members. Currently in its infancy, the co-op's goal is to support local farms and serve as link between local producers and consumers. Their current product list includes locally produced milk, cheese, meat, fish, and bottled water. In addition to these products, the co-op also serves as a buying club of conventional groceries and other products. While their primary service area is currently in and around Eau Claire, Wisconsin, they plan on expanding it to include the entire Chippewa Valley including Altoona and Chippewa Falls.

Organizational History

Just Local Foods began as an effort by Aaron Ellringer and some acquaintances to own their own business that would both provide them with flexibility in their work schedule and serve as a link between local consumers and local producers.

One of their biggest challenges was to decide how to incorporate their business. They weren't sure if they wanted to be an LLC or a cooperative. In addition, they're discussing the idea of becoming a hybrid co-op, where outside investors could provide them with some much needed capital. They've been searching out local resources to assist them in interpreting state statute, and continue to discuss their business structure.

Organizational Structure

Their management structure is currently a little more fluid than a more established co-op's structure might be. However, the general structure includes approximately five areas: orders; deliveries; billing, invoices, and customer service; and marketing. In addition there's shift work that every owner participates in. The co-op is still discussing accountability mechanisms. Currently, work has been divided according to skill and inclination. For example one member, a stay at home mom, does the billing and customer service work. Aaron, who has experience working in the consumer food co-op sector and organizing a worker collective deals with the legal aspects of running a cooperative. Two of the four members had prior experience in the fields of farming and retail co-op groceries.

All four members sit on the board which has been meeting weekly during this intense start-up period. Every important decision is made with all four members present. Everyone takes part, and thus far they've used a consensus-driven decision-making approach.

Membership Challenges

Just Local Foods is currently struggling with a few common challenges of worker co-ops. They have good cash flow, but they haven't yet figured out how to best pay themselves without delving into the issues of worker unemployment insurance. In addition, they're struggling to find a fair and equitable system of compensation, including a reliable, fair and relatively easy way to disburse any dividends. They've gone to the Small Business Administration Centers in the area, but they weren't able to address their cooperative-specific needs. The Wisconsin Rural Cooperative Development office was also helpful in assisting their completion of both an initial business plan and longer term strategic plan.

Currently, Just Local Food has 60 customers. This number is expected to grow to a few hundred in the fall, when households come back from vacations and children go back to school. Their customers are college students, the elderly and families. Original marketing efforts were confined to word of mouth, which grew their customer base to its current size. In late August, the co-op unleashed its latest marketing effort, which is placing information in neighborhood newsletters and school- or family-oriented newsletters. They believe that any more marketing would greatly stress their capacity to keep up with demand.

The co-op has sought advice from numerous technical support organizations included, the Small Business Administration, USDA Cooperative Rural Development, and other worker co-ops like Nature's Bakery in Madison, Wisconsin or Northcountry Cooperative in Minneapolis, Minnesota. However, they found that the technical assistance providers that they went to were not as equipped to deal with the issues specific to worker ownership including setting compensation and developing a straightforward system to distribute any net profits. Other challenges included navigating the state statute governing cooperatives.

Membership Benefits

Membership costs \$1000 and currently new owners must pay that up front. In the future, the co-op may allow new owners to have that money taken directly out of their paycheck. They have not yet set their probationary period, and new owners are currently voted on by all of the owners.

The co-op is also discussing ways of increasing the funds available to them, particularly so that they could compensate themselves and any new owners that may come on board. This may include taking out a loan. However, they've been discouraged by the local banks' unwillingness to loan to a start-up co-op like theirs.

Community Impact

Despite these challenges, the co-op has obviously tapped into a unique market need. Without doing any significant marketing, the co-op has attracted 60 loyal customers and anticipate that number will grow to between 200 and 300 in the fall. The customers often cite the increased feeling of neighborliness as a benefit of the home delivery service. Despite the co-op's small size, they can add a significant benefit to the local economy by providing an outlet for local producers to connect with local consumers, a service that wasn't previously provided to residents of the Eau Claire area. In addition, Aaron cites the consumer education process as an important part of building their market share. As customers realize that the small decisions they can make can have an impact on their community, Aaron anticipates that more residents will become interested in the co-op's service.

Antigo Cheese Company
Antigo, Wisconsin
Interviewee: Paul Bauer, CFO

Business Description

Antigo Cheese Company is employee- and community-owned company through an Employee Stock Ownership Plan or ESOP. Currently, the company is a supplier to Kraft. Other outlets for its products include industrial plants, foodservice, specialty distributors and retailers. Its product lines include Parmesan, Asiago, Romano and Pepato cheeses. Antigo Cheese Company currently employs 130 employees at its Antigo, Wisconsin plant and forty employees at its Blackfeet, Idaho location.

Organizational History

The company didn't start as an employee-owned business. Before 1993, the company was a production plant for Kraft. When Kraft announced the plant was closing and half the management team was moving to a different location, a group of employees organized and went to the governor of Wisconsin to intervene. As one of the largest employers in the county, the plant closing would have been disastrous. After negotiations between the employees and Kraft, Kraft agreed to sell the plant and the formula to make Kraft's parmesan cheese. The employees would reopen the plant as a supplier to Kraft, and it would be organized under an Employee Stock Ownership Plan.

The buyout was structured such that employees' 401K proceeds were transferred to the ESOP structure and the money was used to finance the purchase of the plant. However, employee contributions totaled one million dollars, \$700,000 less than what was needed. To make up the gap, the ESOP took out a loan from three separate local banks, which were hesitant to participate in what they saw as a risky venture. In addition, Kraft forgave its note on the property and local banks provided financing to buy the plant equipment.

Organizational Structure

When the company converted to an ESOP structure, the organizational structure of the Kraft plant was retained. Thus, there is a traditional management structure including a President and CEO, a CFO and several department heads including a purchasing facilitator, shipping facilitator, production facilitator, maintenance facilitator, etc.

Since employees benefit so directly from having a profitable year, they take a particularly active role in making sure that they and their co-workers are working efficiently to help the company succeed. Bauer cites this as one of the reasons the company has had an annual growth rate of 18%, as well as the reason that their annual tonnage is up 70% since converting to an ESOP structure. Last year, the company did \$50 million in sales.

Antigo Cheese Company is not a leveraged ESOP, and only carries working capital debt.

Membership/Ownership Benefits

The unique aspect of the organization includes its distribution of profits and benefits. When an employee is hired, they have the option of participating in stock ownership and benefits. Currently, their participation rate is between 80 and 90 percent: their younger employees are the demographic least likely to participate. An employee must be at the company one year before participating in the stock ownership. After that year, the company has a five year vesting period, during which the company would normally contribute at a 7.5% rate or through a match. In addition, employees receive any annual dividends that the company might produce. Significantly, additional benefits include reasonable health insurance (a dependable \$25.00 per month). Upon leaving the company, an employee may cash in their stock over the course of a five year period.

Membership Challenges

Managing an ESOP in a small Wisconsin town presents unique challenges. Financing their working capital was a huge obstacle. Banks were unwilling to lend to the ESOP because if the plant closed, it would difficult to resell their assets to recoup any losses.

In addition, with the advent of managing the 90% employee-owned company, finding board members with the time and expertise to guide the company became a challenge. In particular, the company struggled to build their equity. Other challenges that presented themselves included an inability to find a local accounting firm that could accommodate their size and understand their unique ownership structure, difficulty managing the myriad employment law issues that come with ownership, and obstacles developing sources for investment capital.

Community Impact

As one of the largest employers in Antigo, the closing of the plant would have been catastrophic for the community. However, its effect wouldn't have been limited to the company's employees. Antigo is located in a farm-based community in Wisconsin: there are over 10,000 dairy cows in and around Antigo. Antigo Cheese Company's ability to buy local raw materials helped support this dairy-based economy and the plant closing would have had significant repercussions in the local farm economy. Paul Bauer, the company's CFO estimated that, had the plant closed, the company would have lost fifty cents per hundredweight in transportation credits, dramatically effecting dairy farm income.

Western Area City County Cooperative (WACCO)**Northwestern Minnesota**

Serving 25 cities and 10 county governments with an average community population of 3,248

Interviewee: Laurie Mullen, Executive Director, WACCO

www.waccogov.org

Mission

“Working together to develop human & natural resources through cooperative efforts.”

Cooperative Business Description

WACCO is a government cooperative consisting of 25 city and 10 county governments in West Central Minnesota. In 1993, eleven cities came together to share city-owned equipment in Northwestern Minnesota. Eventually, WACCO came to offer cooperative purchasing and coordinate regional training and networking events. The two-member WACCO staff coordinate the project, which currently focuses on joint purchasing everything from work boots to baseball aggregate as well as coordinating training for city and county staff, especially in the area of methamphetamine education. They are the only such organization in the state.

Organizational History

WACCO began as a coalition of 11 cities whose purpose was to share personnel and equipment. Around 1993, there was a growing awareness that small cities and towns were losing the ability to afford the machinery required to maintain a town's infrastructure, while surrounding larger cities had excess maintenance capacity. In addition, local governments were increasingly aware of the importance of keeping small town economies well-served and prosperous. As a result, eighteen cities attended the first meeting of what would become WACCO, and eleven of those eighteen formed a Joint Powers Board. Nine months later, area counties decided to participate.

Originally, major duties of the cooperative were to coordinate the shared use of equipment like street sweepers and sewer jetters, or share the resources of staff in various city offices. Since then, the cooperative has moved beyond the limited purview of equipment sharing, to providing cooperative purchasing services, networking opportunities and a training venue closer than the Twin Cities. All of these services reduce costs to the local governments, as the cooperative can provide local training, where before city employees had to go to the Twin Cities for those opportunities. In addition, the networking opportunities increase resource-sharing and build capacity among member cities and counties.

Organizational Structure

The cooperative has two employees: the executive director and her assistant. They coordinate the joint purchasing, equipment sharing, training sessions and networking meetings as well as manage the cooperative's budget. They are governed by a board of directors consisting of one representative from each member unit of government. The board's primary responsibility is to assist the executive director in directing long-term programming and planning. The cooperative is structured under Minnesota Statute 471.59, the Joint Exercise of Powers Statute, which governs local governments' abilities to work together.

The cooperative funds its activities through membership dues and earned income in the form of fees for training provided.

Membership: Benefits

The cooperative has seen strong growth over the past eleven years. Since the original eleven members founded the co-op, the membership has grown to its current size of 25 cities and 10 counties. Membership fees are variable and are determined by population levels in the member cities and counties. Laurie Mullen emphasizes to members that the cooperative is only as productive as the participation of its members. Networking groups are organized by department and meet bimonthly. Networking groups include all aspects of city government including:

- Public Works
- Human Resources
- Mayors
- Fire Chiefs
- Crisis Centers
- Superintendents
- Park & Recreation
- Health & Safety Directors
- Probation Officers
- Wastewater Management
- Liquor Store Managers
- Department Heads
- Law Enforcement

A networking meeting may include a short educational program where new resources or innovative programs are introduced. In some departments a vendor may be brought in to do a presentation. There are few concrete guidelines, so these meetings are responsive to the needs of the group.

Other benefits of membership include opportunities for localized training. This training may be technical: for example, WACCO recently hosted a training in gravel road maintenance techniques. Other trainings may provide information on management techniques such as Conflict Prevention Intervention or political leadership. Because of the cooperative's ability to leverage their resources, WACCO is home to one of the state's only methamphetamine public education programs. Laurie emphasizes that these trainings have led to an increased level of professionalism by city and county employees

across their service area, as well as an increased capacity to develop training efficiently to address city employees' needs.

The joint purchasing of goods is another benefit of membership to WACCO. Currently, products included on their cooperative purchase list include:

- Baseball Aggregate
- Calcium Chloride/Magnesium Chloride—Dust Control
- Calcium Chloride/Magnesium Chloride—Ice Control
- Carbide Cutting Edges
- Computer Monitors
- Digital Voice Recorders and Transcription Kits
- Grader Blades
- Polaroid Film
- Road Salt
- Rocky Boots & Shoes
- Traffic Paint
- Crack Sealer

Membership: Challenges

The cooperative has its share of challenges. Because there are no formal responsibilities as a condition of membership, some units of government may prefer not to participate in the networking and resource-sharing, while taking advantage of the ability to purchase goods at a discounted rate.

The Executive Director spends a large portion of her time building relationships with elected officials and staff at the various units of government involved, as well as facilitating the process by which individual members get to know each other. She comments that support for the cooperative's efforts by city managers and mayors sets an example that the rest of the staff should follow in terms of facilitating resource-sharing. An additional challenge stems from the high turnover rate at various city offices. This means that the cooperative education process must be consistent and ongoing.

Community Impact

The cooperative has substantially increased the level of efficiency, economy and professionalism among city and county governments in the area. Their ability to marshal resources and deploy them is unusual. During the 1997 floods in the Red River Valley, the mayor met with the city Public Works Director to compile a needs list. By Sunday, the cooperative had been able to coordinate the arrival of building inspectors from around the region, street sweepers from Minneapolis and Work teams for each of those trucks. The cooperative had been in and out of the community before FEMA was even able to arrive. Laurie credits this response rate to the relationships and history the cooperative can build among the communities in her region.

Gillett Area Cooperative**Gillett, WI, population: 1,256****Interviewee: Diane Nichols, Program Manager, Revitalize Gillett****Mission**

To Be Determined

Cooperative Business Description

The Gillett Area Cooperative was incorporated on July 9th, 2004, and as such, is still largely a theoretical organization. However, if its structure becomes a reality, it could provide an exciting model for local communities to provide an incubator for independent entrepreneurship. The cooperative is envisioned as a pharmacy that would be located in downtown Gillett. Being that Gillett is currently not served by a local pharmacy, it would fill an immediate market need. Although the pharmacy is at the top of the list of needs for the local community, other businesses that are being considered for development include a bowling alley, a bakery, and a bed and breakfast. The cooperative would sell shares to local residents, who would potentially receive a discount for shopping at the cooperative. After the cooperative is fully functional and has developed a base of clients large enough to support itself, the cooperative would sell its assets to the to an owner, who would ideally already manage the business, and take that capital to develop a new local business that would fill a different community need.

Organizational History

In Gillett, a town of 1,085 residents, the closest pharmacy is ten miles away: a long enough distance to make folks who usually need a pharmacy a little bit nervous, particularly in the winter months. The town had unsuccessfully tried to recruit a few recent graduates of a nearby pharmaceutical program to open a pharmacy in town. However, they couldn't convince anyone to take on the job. Young pharmacists were reluctant to come to Gillett because they didn't want to deal with the extra pressures of opening and running a small-town pharmacy including dealing with inventory, working long hours, and building a new business. However, when the town started tossing around the idea of the city of Gillett buying the inventory and renting the space and doing everything a new owner would have to do, their interviewees said they would be more inclined to take the position.

Around this time, Diane Nichols, program manager for the Revitalize Gillett program, a product of the Main Street Revitalization program in Wisconsin, heard a program on National Public Radio documenting the plight of small towns in Wyoming and Montana that were losing their department stores and grocery stores. Communities were setting up cooperative corporations whereby the residents would buy shares and raise capital to open their own grocery stores or department stores. Diane thought that the same strategy would work for her community to solve their need for a local pharmacy.

Organizational Structure

The cooperative is currently envisioned to be a particularly innovative and new type of community-owned cooperative. The co-op would sell shares to community members for approximately \$100 per share. But, as Diane says, “to raise capital at a \$100 a pop would take a really long time.” The co-op would raise the remaining capital by applying for New Market Tax Credits. These tax credits would enable the cooperative to raise capital by selling up to \$500,000 in tax credits to an investor class of share holders. The investor class would only have the right to vote on decisions pertaining to:

- changes to the Articles of Incorporation;
- division of the cooperative; and,
- dissolution of the cooperative.

Common stock owners would have the right to elect and serve on the board of directors and vote on any decisions brought to the general membership.

Currently, a committee of six people has met monthly over the course of the past eight months to guide the process of becoming a community-owned cooperative. From early on, the decision was made to keep the pharmacy separate from its development entity, the Main Street Economic Development Corporation. To this end, Diane invited active community members to participate on the Cooperative task force. These participants are young, old middle aged, and come from a wide variety of backgrounds.

Membership: Benefits

Membership benefits are still under consideration. Many ideas have been generated, including offering an instant rebate program or creating a discount card.

Membership: Challenges

The temporary task force had met with several challenges, even before they incorporated. For several months, they had hit a road block on developing the language that would govern the investor class shareholders. Until they stumbled upon the language that Organic Valley, a Wisconsin-based producer cooperative, currently uses, they weren't sure that their complex hybrid co-op could legally be incorporated.

In addition, though Gillett's per capita income should qualify it for use of the New Market Tax Credit Program, the 2000 US Census found that Gillett had an unusually high area median income, disqualifying it from the program. This is widely held to be an error, but task force members are still discussing ways that this seemingly insurmountable and misplaced barrier can be overcome.

Community Impact

The community impact of the community development cooperative is hoped to act as an incubator for several new businesses. The Main Street Program in Wisconsin, which funds the program, is committed to revitalizing small towns through historic preservation. The desired effect would be a stream of new, locally owned, conveniently located businesses in Gillett's downtown, which currently suffers from a surfeit of empty storefronts.

FINDINGS

I. The community-owned enterprise appears to be a feasible model for community economic development:

While it is too early to judge the ultimate success of our case study participants, the study indicates that cooperative community ownership is increasingly being used as a means for rural economic development and revitalization in small towns across the West and Midwest. It's no coincidence that several of our case studies profile new or emerging businesses: converting or starting a community-owned cooperative is an emerging community development strategy. While we interviewed six community-owned businesses, two other community-owned clothing cooperatives are successfully operating in Montana and Wyoming, and the Mercantile regularly plays host to visitors from Nevada to New York looking to replicate its success on their own Main Streets. This ownership structure does not, however, always take the form of cooperative ownership in large part because cooperative ownership is oftentimes more complicated than other business structures.

The community ownership cooperative model may also serve to broaden the appeal of the community- or employee-ownership model. For years, the ESOP structure has been used as an effective stop-loss strategy in communities threatened with corporate job losses. However, with the growing popularity of the cooperative model there may be an opportunity to bring community ownership to an even broader audience. Additionally, while ESOPs must have a minimum of 50 employees, cooperatives can accommodate a much smaller staff size, which may facilitate the creation of an increased number of small businesses in rural communities.

It is evident that community ownership is a viable model and can be used effectively to ignite economic development. This success primarily stems from the fact that a community-owned or cooperative model can serve markets that other business structures can't. While many department stores' motivations are profit-driven, a community-owned business's motivation is to fill a community need. The department stores that closed in the communities profiled here didn't close because they were losing money, but because they weren't earning a large enough profit to warrant the higher cost of doing business due to their remote location. This implies that businesses can succeed financially if their motivation is not to make the highest profit possible, but simply to operate the enterprise in a fiscally responsible manner. Similarly, as the Antigo Cheese Company case illustrates, a plant may be abandoned by a large corporation, not because it cannot be operated profitably, but simply because it no longer fits into some national corporate strategy.

This form is successful where other businesses might not be because of their unique ties to a broad swath of the community, and the commitment that local residents may have to that business's survival. The Mercantile in Powell, Wyoming draws customers both from around the state and in the town of Powell exactly because it is community-owned. Its

unique structure attracted national media attention, bringing in customers from as far away as Billings, Montana. Local customers feel a greater sense of responsibility for the business because they own a share in that corporation, which incents them to shop there.

WACCO provides an example of another effective way that rural residents can pool resources and increase efficiency. This program, which began simply as a means to save money by sharing equipment, staff, and purchasing power, now boasts sophisticated training programs such as their methamphetamine prevention program – the only one in the state -- because of its ability to marshal resources and solve problems at a regional level.

Internationally, most notably in Quebec, Canada, cooperators are pursuing a new and innovative cooperative structure that may be particularly relevant to rural cooperative development in the U.S. The development of this new kind of “solidarity” or “integrated” co-op, which unites workers, producers and consumers together in common membership, was driven by the closing of essential services in several Canadian rural communities. The integrated cooperative provides a mechanism by which community members, workers, and other interested parties can come together to meet their common needs. Each membership group, whether it be consumer-members, worker-members, or “supporting-members,” is allotted a certain number of seats on the governing board according to their status. For example, supporting members may comprise no more than one third of a board of directors. Integrated cooperatives have been particularly successful in the home health care and daycare sectors, providing crucial services in underserved markets. Cooperators and technical assistance providers should be aware of this model and the benefits it can provide to small communities by uniting all stakeholders; employees, consumers, and others, as members in a common endeavor.

II. Defining a replicable strategy for community-owned cooperative development

There are several things that these successful businesses have done which are easily replicated and critical to success.

1. *Use local existing economic development organizations to initiate and guide development efforts.* In Powell, Colstrip, and Gillett, the communities are graced with community development organizations that initiated the move toward the development of a community-owned business. With a development organization on board, communities have better access to professional and financial resources.
2. *Engage and build community partnerships.* In Colstrip, Powell, Gillett and at WACCO, community partnerships were and are critical to the projects’ success. Creating a community task force to guide the process can give the project both legitimacy and momentum. Members of the task forces were, broadly speaking, community leaders and trusted citizens with a variety of professional backgrounds including attorneys, accountants, retail specialists and civic employees. Community meetings with professional and civic groups provided the task forces with guidance and helped cement broad community support.

3. *Emphasize individuals' financial investment as an investment in the future and strength of the community.* Each business commented that enticing residents to provide financial support took longer than was expected. They engaged residents at a visceral level to purchase shares and provide support. Educating community members about the potential power of this enterprise to create benefits across the community can engender broad-based support. In Powell, once residents realized the benefits of community ownership, family members began to give shares as gifts, and some residents decided that, rather than investing in the stock market, it was more meaningful to invest in the business, which would have direct benefits. Communicating the transformative potential of investing in a community-owned business is key to project success.

III. The Role of Technical Assistance Providers

Technical Assistance providers have a valuable opportunity to provide services to these communities to support community-owned cooperatives and other businesses. Community-owned businesses which may have considered the cooperative ownership model were often discouraged from using it because of what were perceived as the complicated accounting and tax law which accompanies the structure.

Technical assistance providers would encourage the development of community-owned cooperatives by:

1. *Providing state-specific information on cooperative tax law to groups seeking to develop community-owned businesses.* Currently, many groups try to find this information themselves and come away discouraged from using the model. In Colstrip, the development entity was able to contact the Montana Cooperative Development Center to assist them in navigating the state laws. With their help the business will go forward structured as a cooperative.
2. *Developing accessible accounting software which accommodates the unique needs of cooperatives.* Both Antigo Cheese Company and The Mercantile were discouraged from pursuing the cooperative model because they couldn't find an accounting system that could easily and efficiently calculate and manage shareholder dividends or accommodate financial member benefits (i.e. member discounts).
3. *Partnering with economic development entities to promote cooperative development.* Economic development entities can facilitate cooperative development, if they have access to technical assistance providers who can provide them the information and support that they need. Technical assistance providers should actively pursue these partnerships to promote the model.
4. *Provide access to appropriate financing.* In several of the development case studies, conventional bank financing was very difficult to secure for community-

owned enterprises. Technical assistance providers can help by locating alternative lenders such as community development financial institutions, and helping the co-ops to access this financing.

CONCLUSION

Community-owned cooperatives can play a much bigger role in rural economic development than they currently do. Interest is growing in the community ownership model, as more economic development entities initiate community development of grocery stores and clothing stores. However, they may be discouraged from structuring these businesses as cooperatives because of the unfamiliar tax law and accounting systems that must accompany the model. Cooperatives can play a larger role in this development arena if technical assistance providers can simplify the cooperative development process and engage economic development entities in partnership.

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