

4 February 2019

To: CT Co-op Statute Working Group
Fr: Erbin Crowell

**Talking Points on Proposed Bill No. 138:
AN ACT MODERNIZING THE STATE'S COOPERATIVE ASSOCIATION STATUTES**

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A. SUMMARY

1. What is a co-operative?

A co-operative is a not-for-profit business model that is based on meeting the needs and goals of its members, the people who use its products and/or services, rather than maximizing profit or share value for investors. Co-ops are distinct from both for-profit businesses and non-profit organizations in that they are user-owned, user-governed, and user benefitting. Co-ops are designed to operate at cost, with any profit generated reinvested in the business and its services or returned to members in proportion to use.

In Connecticut, General Statutes Title 33: Corporations; Chapter 595: Co-operative Associations, provides the legal framework for forming co-operative businesses.

2. Why are these amendments to Chapter 595, Co-operative Associations, necessary?

Co-operative development in the State of Connecticut is restricted by outdated provisions that discourage people from forming and operating co-operative enterprises, reflected in the proportionally low numbers of co-ops in the state. This has a negative impact on our economy, local businesses, and communities.

3. What will the amendments do?

The proposed amendments will bring Chapter 595 up to date and in more in line with statutes in nearby states while strengthening the basic co-operative principles of member-ownership, member-control, and member benefit. These improvements would reinforce the principle of democratic member governance, free from interference by external non-member interests (e.g. investors and non-profits), and help accelerate co-op development by:

- a) Making it easier to form a co-operative by reducing the number of incorporators required from seven people to three people;
- b) Clarifying that Member Shares shall have par value in keeping with co-operative law and practice;
- c) Increasing the maximum Member Share price to reflect the rate of inflation and facilitating the development of Co-operative Associations with sufficient capital and scale;
- d) Removing individual liability of Members for debts, putting co-operatives on equal footing with other corporations in the State of Connecticut; and
- e) Providing the Board of Managers or Directors with more flexibility in allocating profits or surplus to purposes in keeping with co-operative law and practice.

4. Who will benefit from these changes?

- a) Entrepreneurs interested in forming new co-operative businesses.
- b) Existing Co-operatives looking to expand their products and services.
- c) Local Producers & Businesses that serve and utilize co-ops.
- d) The State of Connecticut, its communities, and our economy.



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B. BACKGROUND NOTES

1. What is a Co-operative?

A co-operative is a unique not-for-profit business model that is based on meeting the needs and goals of its members, the people who use its products and/or services, rather than maximizing profit or share value for investors. Co-ops are distinct from both for-profit businesses and non-profit organizations in that they are user-owned, user-governed on the basis of one-member one-vote, and user benefitting in proportion to use (rather than the number of shares held). Any financial surplus (income over expenses, or profit) is reinvested in the business for the benefit of the community, or is returned to its members in proportion to their use of its products and services.

The co-op business model is recognized internationally and there are an estimated 1 billion members of co-ops and credit unions worldwide. Some familiar co-operative enterprises in our region include retail grocery co-ops, farmer and fishery co-ops, employee and artisan co-operatives, credit unions, and housing co-ops. (For more information, visit the websites of the International Cooperative Alliance, <http://www.ica.coop>, and the National Cooperative Business Association CLUSA International, <http://www.ncba.coop>.)

Co-operative businesses have proved resilient in the face of the Great Recession, with many co-ops across our region continuing to grow, bringing on more member-owners, hiring more employees, and expanding their facilities. Food and farmer co-ops have played an important role in sustaining local farmers, strengthening local food systems, and building food security.

Most co-operatives are incorporated under state statutes that ensure consumers and the general public that the business operates in accordance with co-operative principles. In Connecticut, General Statutes Title 33: Corporations; Chapter 595: Co-operative Associations, provides the framework for and regulates the operation of co-operative businesses. (As member-owned financial institutions, Credit unions operate under their own state and federal statutes.)

2. Why are these amendments to Chapter 595, Co-operative Associations, necessary?

According to a 2009 study by the University of Wisconsin:

- There are about 350 co-ops and credit unions in the State of Connecticut,
- Locally owned by about 913,000 people — 1 in 4 people in Connecticut are member-owners of a co-operative or credit union (25%),
- These co-ops employ about 3,890 people.

These numbers are impressive — but they are among the lowest in New England and New York! For example, over 35% of the population of Massachusetts are members of co-ops, and over 50% of the population of Vermont. And not counting credit unions, which are organized under a different statute, there are just 200 co-ops in our state.

The relative absence of co-ops in the State of Connecticut is a consequence of outdated provisions that discourage people from forming and operating co-operative enterprises, and restricting their ability to grow. This means that the people of our state are unable to take advantage of the business model in meeting their needs. The State is unable to benefit from the economic development that would result from greater ease in forming co-operative businesses. Our economy loses out on the trade and other economic activity that would result from there being more co-ops in the state.

3. What will the amendments do?

The proposed amendments will bring Chapter 595 up to date and more in line with statutes in nearby states while strengthening the basic co-operative principles of member-ownership, member-control, and member benefit. These improvements would reinforce the principle of democratic member governance, free from interference by external non-member interests (e.g. investors and non-profits), and help accelerate co-op development by:

- a) Making it easier to form a co-operative by reducing the number of incorporators required from seven people to three people;

- b) Clarifying that Member Shares shall have par (face) value in keeping with co-operative law and practice;
- c) Increasing the maximum member share price to reflect the rate of inflation and facilitating the development of Co-operative Associations with sufficient capital and scale;
- d) Removing individual liability of Members for debts in keeping with incorporation as a corporation in the State of Connecticut and with co-operative law and practice; and
- e) Providing the Board of Managers or Directors with more flexibility in allocating profits or surplus to a contingency, sinking, or unallocated reserve fund, or collective account in keeping with co-operative law and practice.

4. Who will benefit from these changes?

People Forming New Co-operative Businesses. Currently, it is unattractive to form a new co-op in the State of Connecticut. For example, the Neighboring Food Co-op Association (NFCA), a federation of retail grocery co-ops across New England and New York State, is involved in economic development of new food co-ops. However, deficiencies in state co-operative statutes make it undesirable for people to form these businesses in the state, and instead incorporate out of state or using inappropriate statutes.

[Supported by testimony from a Start-Up and/or NFCA.]

Existing Co-operatives. Willimantic Food Co-op in Willimantic, CT, plays an outsized role in supporting local farmers and businesses, providing healthy, affordable food, and providing stable employment in its area. While the business operates in keeping with co-operative principles, it was originally incorporated as a non-stock corporation in 1976 due to issues with the statute. Because of this, it is restricted from distributing patronage rebates (a share of year-end surplus) to its members in a manner that would benefit the enterprise. While the business would like to reincorporate under state statutes, this is inadvisable due to archaic personal liability provisions.

[Supported by testimony from Willimantic Food Co-op and Fiddleheads Natural Foods Co-op.]

Local Producers & Businesses. Food co-ops prioritize purchases from local farmers and other producers. This strengthens the state economy, supports the development of new businesses and helps sustain the small businesses that create a vibrant local economy.

- Connecticut's two retail food co-ops, Willimantic Food Co-op (Willimantic) and Fiddleheads Natural Foods Co-op (New London) sell \$1.5 million in local products annually.
- Together, the member co-ops of the Neighboring Food Co-op Association (NFCA) sold over \$90 million in products from local vendors.

In the State of Vermont, just 15 food co-op stores accounted for 14% of local products sold in 2017. With more food co-ops, Connecticut could build a stronger, more resilient local food system.

[Supported by testimony from a local supplier to Willimantic Food Co-op and Fiddleheads Food Co-op.]

C. SAMPLE LETTER TO LEGISLATORS

[Date]

To [Your State Representative or Senator]
[Mailing Address and/or E-mail]

Dear [Name],

I am writing today to ask that you support the passage of Proposed Bill No. 138: An Act Modernizing the State's Cooperative Association Statutes, with NO amendments.

This commonsense legislation will bring our state's co-operative statute, "General Statutes Title 33: Corporations; Chapter 595: Co-operative Associations," up to date and more in line with statutes in nearby states, making it easier for entrepreneurs to form co-operative enterprises and supporting the growth of existing co-ops, while reinforcing the principle of democratic member governance, free from interference by external non-member interests.

Connecticut currently ranks among the lowest in New England in terms of the number of co-ops as a proportion of population, due in part to outdated legislation that restricts their development. For example, in contrast to other corporations, current law holds individual co-op members liable for the debts of their business. Changing this provision would put existing co-ops on an even playing field with other businesses, and encourage entrepreneurs to form new co-ops.

[Use this section to share why the growth and development of co-ops would be a benefit to the state of Connecticut.

- *If you are a member or employee of a local co-op (for example a food co-op or credit union), share how it has benefitted you and your community. If you have served as a board member, share something positive from that experience — for example, the ability of everyday people to serve in elected leadership roles in a business that serves and benefits their community.*
- *Co-ops are locally owned by local people, making them more responsive to local needs. As we work to build stronger communities, co-ops can be a solution — if we allow them to grow!*
- *Food co-ops are drivers of local economies. For example, Connecticut's two retail food co-ops alone sell \$1.5 million in local products annually. On a regional level, the Neighboring Food Co-op Association reports that its 27 member co-ops sell over \$90 million in products from local producers. What if we had more food co-ops?*
- *As a generation of baby boomer small business owners nears retirement, half of the nation's privately-held businesses are at risk of buyout or closure. Co-ops can be a solution to this "Silver Tsunami," preserving local businesses by selling them to their employees and community members when the owner decides to retire.*
- *Co-ops have been shown to be more resilient during economic down turns, preserving jobs and local economic activity.*
- *On a global level, there are more than 1 billion members of co-ops. According to the National Cooperative Business Association, 1 in 3 Americans are members of 65,000 co-ops. These businesses generate \$75 billion in annual wages and \$650 billion in revenue.*

I hope that I can count on your support for the passage of Proposed Bill No. 138: An Act Modernizing the State's Cooperative Association Statutes.

Thank you for your service.

Sincerely,

[Your Name, Address, Phone and E-mail]