

# WORKER CO-OP 101

BOSTON CENTER FOR COMMUNITY OWNERSHIP  
BCCO.COOP

# WORKSHOP OUTLINE

- WHAT IS A CO-OP?
- WHAT KINDS OF CO-OPS ARE THERE?
- HISTORY OF WORKER CO-OPS
- RIGHTS AND RESPONSIBILITIES OF MEMBERSHIP
- HOW DO WE START A CO-OP?
- WHAT CAN GO WRONG?
- WHO CAN HELP US?
- APPENDIX: THE CO-OP CAPITAL STRUCTURE

# WHAT IS A CO-OP?

Good  
question!

# ICA DEFINITION OF COOPERATIVES

- “A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”



The twin pines is a symbol you might see a lot. It was adopted in 1921 by the Cooperative League of America, the precursor to NCBA.

# TWO DIMENSIONS OF OWNERSHIP

Being a member of a co-op implies two different things:

- **Financial Benefit**



**“jointly owned”**

- **Power over Decisions**



**“democratically controlled”**

# LEGAL DEFINITIONS

- State Law – only 7 states have worker co-op laws
- Massachusetts 157A law – first in the nation
- Many co-ops choose LLC's instead

The screenshot shows a web browser window displaying the Massachusetts Legislature website. The address bar shows the URL: [www.malegislature.gov/Laws/GeneralLaws/PartI/TitleXXII/Chapter157a](http://www.malegislature.gov/Laws/GeneralLaws/PartI/TitleXXII/Chapter157a). The page header features the text "THE 188<sup>TH</sup> GENERAL COURT OF THE COMMONWEALTH OF MASSACHUSETTS" and a search bar. The main navigation menu includes "Massachusetts Laws", "Bills", "State Budget", "People", "Committees", "Educate & Engage", and "Events". The breadcrumb trail reads: "Home >> Bills & Laws >> Laws >> General Laws >> PART I >> TITLE XXII >> CHAPTER 157A >>". The left sidebar lists "Massachusetts Laws" with sub-links for "Massachusetts Constitution", "General Laws", "Session Laws", and "Rules". The main content area is titled "General Laws" and contains a table with the following structure:

<b>PART I</b>	<b>ADMINISTRATION OF THE GOVERNMENT</b> (Chapters 1 through 182)	PREV NEXT
<b>TITLE XXII</b>	<b>CORPORATIONS</b>	PREV NEXT
<b>CHAPTER 157A</b>	<b>EMPLOYEE COOPERATIVE CORPORATIONS</b>	PREV NEXT

Below the table, there is a section for "Section 1" with a "Short title" field.

# TAXATION

- Subchapter T of the Internal Revenue Code – special tax treatment for co-ops:
- You can find it on the Cornell University Law School web site

The screenshot shows a web browser window displaying the Cornell University Law School website. The address bar shows the URL: [www.law.cornell.edu/uscode/text/26/subtitle-A/chapter-1/subchapter-T](http://www.law.cornell.edu/uscode/text/26/subtitle-A/chapter-1/subchapter-T). The page title is "26 USC Chapter 1, Subchapter T - Cooperatives and Their Patrons". The page content includes a navigation menu with "USC", "Title 26", "Subtitle A", "Chapter 1", and "Subchapter T". Below the title, there are tabs for "USC-prelim", "US Code", "Notes", and "Updates". A yellow box contains the text: "USC Prelim is a preliminary release and may be subject to further revision before it is released again as a final version." Below this, it states: "Current through Pub. L. 112-143, except 112-141. (See [Public Laws for the current Congress](#).)" At the bottom, there are two bullet points: "PART I—TAX TREATMENT OF COOPERATIVES (§§ 1381-1383)" and "PART II—TAX TREATMENT BY PATRONS OF PATRONAGE DIVIDENDS AND PER-UNIT RETURN ALLOCATIONS (§ 1395)". On the right side, there is a "U.S. CODE TOOLBOX" section with a search bar and links for "Download the PDF (105 pgs)", "Title 26 USC, RSS Feed", "Table of Popular Names", and "Parallel Table of Authorities".

# ASSOCIATIONS OF WORKER CO-OPS



The US Federation  
of Worker  
Cooperatives



CICOPA: The International  
Organisation of Industrial,  
Artisanal and Service  
Producers' Cooperatives



# OK OK SO WHAT IS A CO-OP REALLY?

First and foremost, a co-op is a business. It has customers that pay for a product or service. If it doesn't take in more money than it pays out, it will have to shut down.

- Is it a non-profit?  
No. (Not usually, anyway.)
- Is it a for-profit?  
Kind of.
- Technically, a co-op operates at cost, so it's neither a for-profit nor a non-profit. Generally, it's organized and taxed as a for-profit.

# LEGAL FEATURES OF COOPERATIVES

There are a few key features of U.S. cooperatives:

- Subordination of capital
- One member, one vote
- Operation at cost

These features were defined by a 1965 court case:  
*Puget Sound Plywood v. Commissioner*, 44 T.C. 305, 307-308

# INTERNATIONAL COOPERATIVE PRINCIPLES

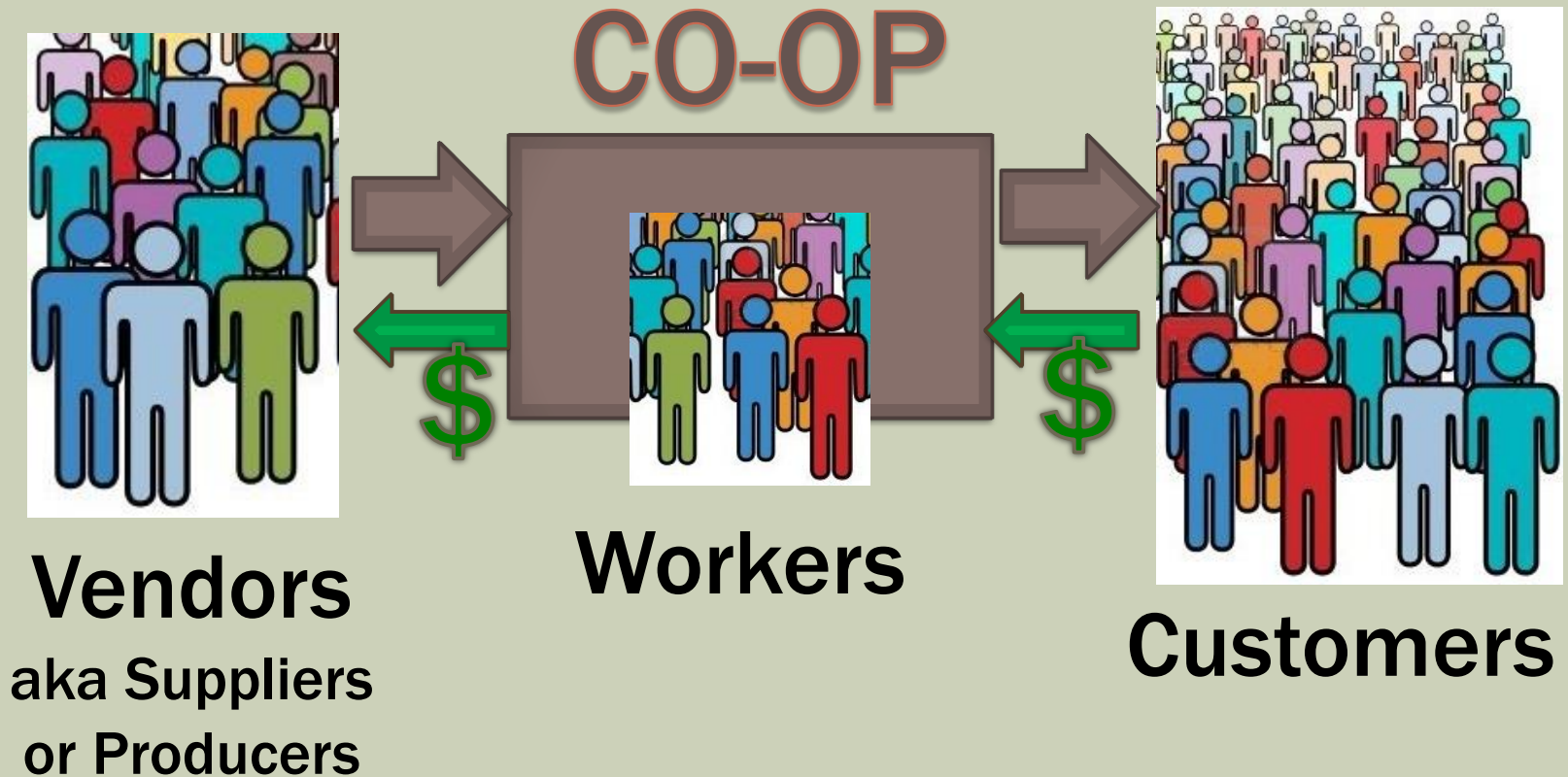
- 1. Voluntary and Open Membership**
- 2. Democratic Member Control**
- 3. Member Economic Participation**
- 4. Autonomy and Independence**
- 5. Education, Training and Information**
- 6. Co-operation among Co-operatives**
- 7. Concern for Community**



# WHAT KIND OF CO-OPS ARE THERE?

Good  
Question!

# WHAT KINDS OF CO-OPS ARE THERE?



# WORKER-OWNED COOPERATIVES

*This is Quilted.*

- The members are the workers in the business
- Only the workers get a vote in the co-op
- Surplus is returned back to the workers in proportion to the hours they worked



# CUSTOMER-OWNED COOPERATIVES

- The members are the customers of the co-op
- Only the customers can vote in the co-op
- Surplus is returned to the members on the basis of how much stuff they bought from the co-op



# SUPPLIER-OWNED COOPERATIVES

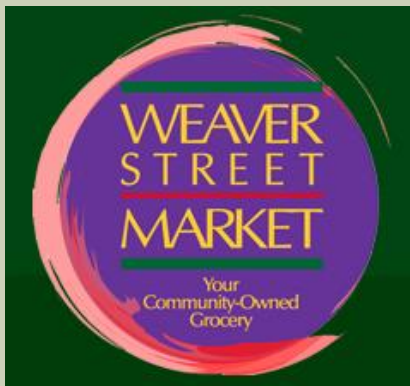
- Aka “Producer Co-ops”, these are often agricultural businesses
- The members sell products to the co-op
- Only the suppliers can vote in the co-op
- Surplus is returned to the members on the basis of how much stuff they sold to the co-op that year





# HYBRID CO-OPS

- Becoming common among food co-ops
- Both Consumers and Workers can be members. Each group elects a certain number of representatives to the board
- Both Consumer and Worker members can vote
- Surplus is allocated to each group according to an agreed percentage



# ECONOMIC IMPACT OF US CO-OPS

A 2009 study by NCBA and the University of Wisconsin Center for Cooperatives found:

**Table 2-2: U.S. Cooperatives by Type**  
Summary of Key Economic Indicators

Cooperative Type	Assets	Wages	Firms	Employees <sup>2</sup>	Memberships <sup>1</sup>
	(million dollars)			(thousands)	
Worker <sup>3</sup>	128.02	55.41	223	2.38	55.14
Producer	23,632	2,970	1,494	72.93	714.65
Purchasing	1,126,848	2,902	724	130.35	6,133
Consumer	1,975,805	19,085	26,844	650.65	343,969
Total	3,126,414	25,013	29,285	856.31	350,872

<sup>1</sup>One member can belong to multiple cooperatives, so does not necessarily represent a unique individual.

<sup>2</sup>Employment is reported in terms of full-time employees. Two part-time workers are reported as one (full-time) employee.

<sup>3</sup>Member numbers are higher than employment figures because a) member numbers include part-time workers, but employment figures represent the number of full-time positions b) some cooperatives reported their membership but not their employment figures.

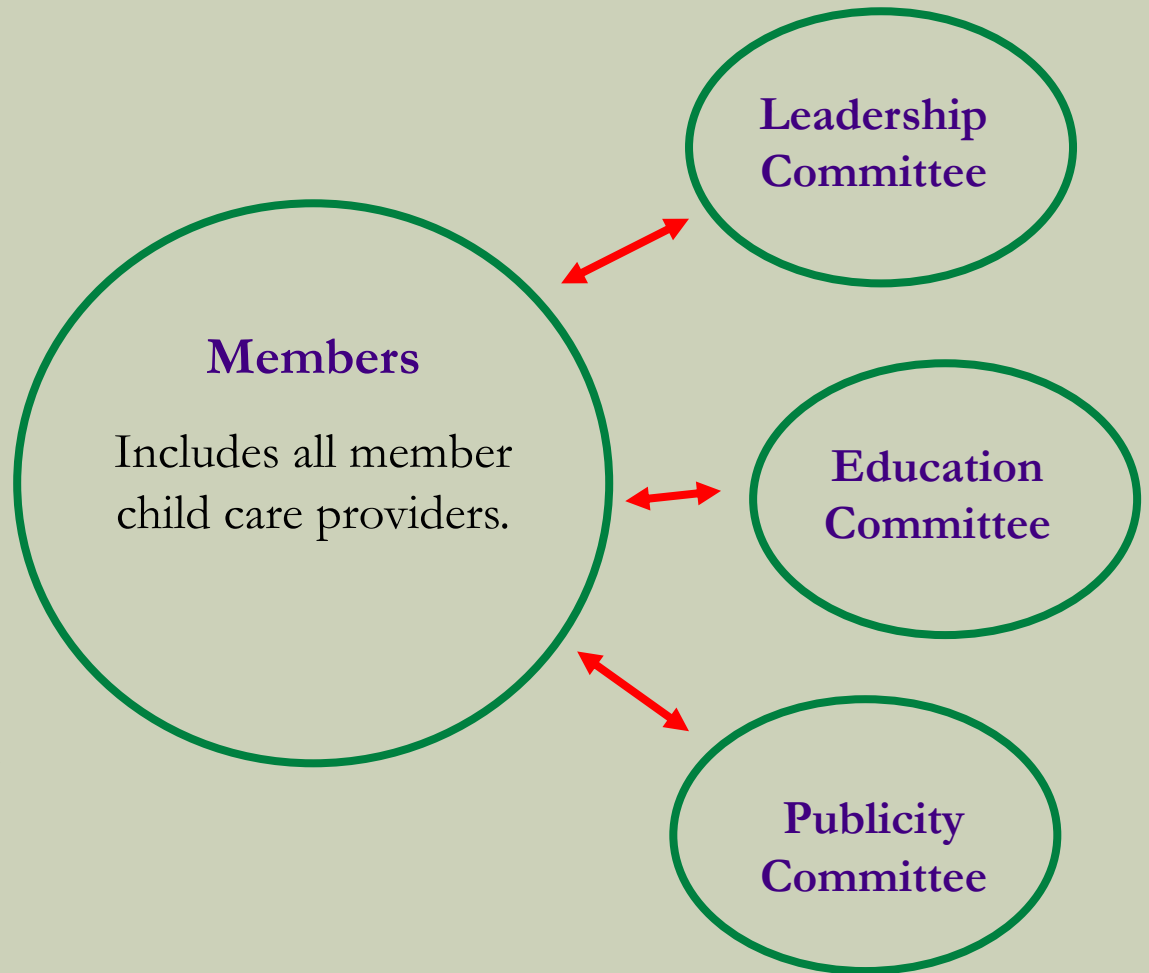
# Beyond Care: a Child Care Cooperative



**Beyond Care** was founded by 25 immigrant women in Brooklyn, New York in 2008. They provide high-quality child care, with an emphasis on safety, nutrition, and education. Beyond Care members strive to create good jobs for immigrant women.

# Beyond Care: a Child Care Cooperative

All members vote on **governance** issues and **important management decisions**.



All members are encouraged to serve a **one-year term** on an **elected management committee** at some point.

**Union Cab** was founded in 1979 by a group of Madison, Wisconsin drivers, dispatchers, and mechanics. The founders had worked at another cab company, but they quit after an unsuccessful labor struggle. Their dissatisfaction with their former employer inspired them to form a cooperative.

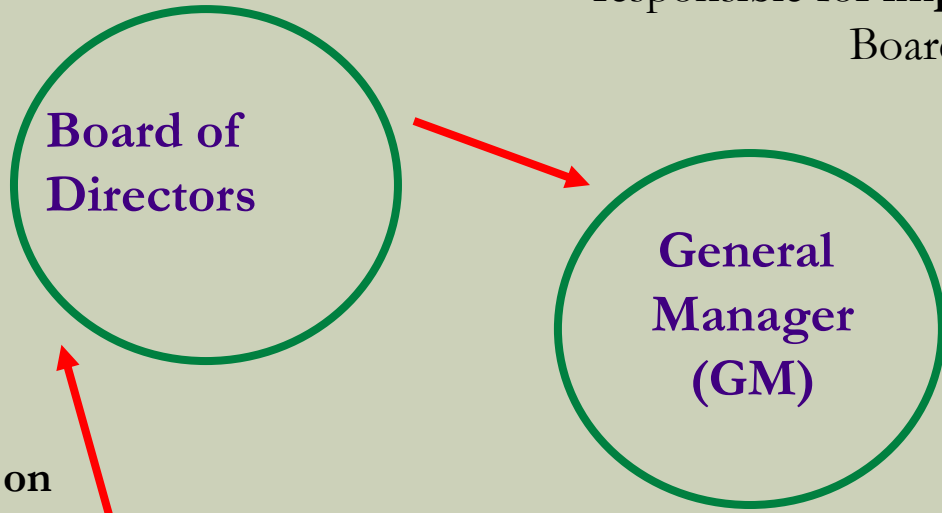
## **Union Cab: a Cooperative Taxi Service**



The Board **hires** and **supervises** the **General Manager**.

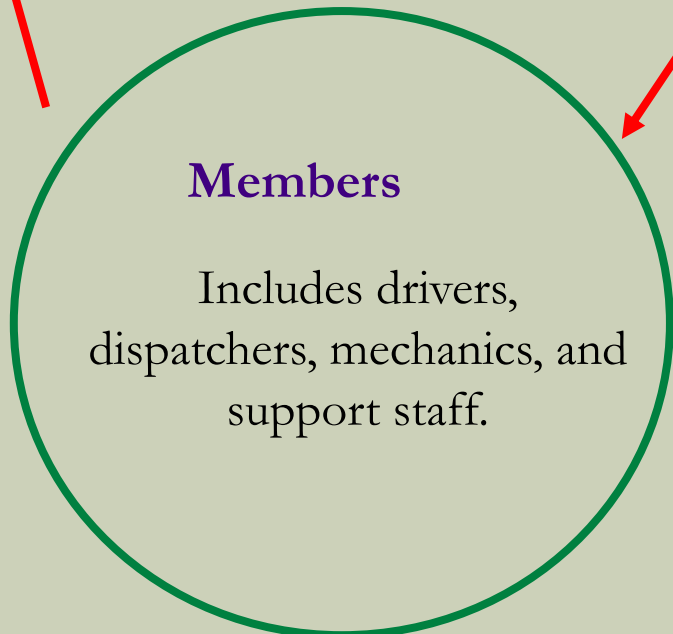
The General Manager (GM) is responsible for **implementing** Board decisions.

The Board of Directors is made up of 9 members. The Board is responsible for **governance**.



The members **elect** and **serve on** the Board of Directors and on Board **committees**.

The GM **hires** and **supervises** other members. Some departments have supervisors, but all members are accountable to the GM.



### Members

Includes drivers, dispatchers, mechanics, and support staff.

# Union Cab: a Cooperative Taxi Service



# Design Action Collective: a Design Cooperative

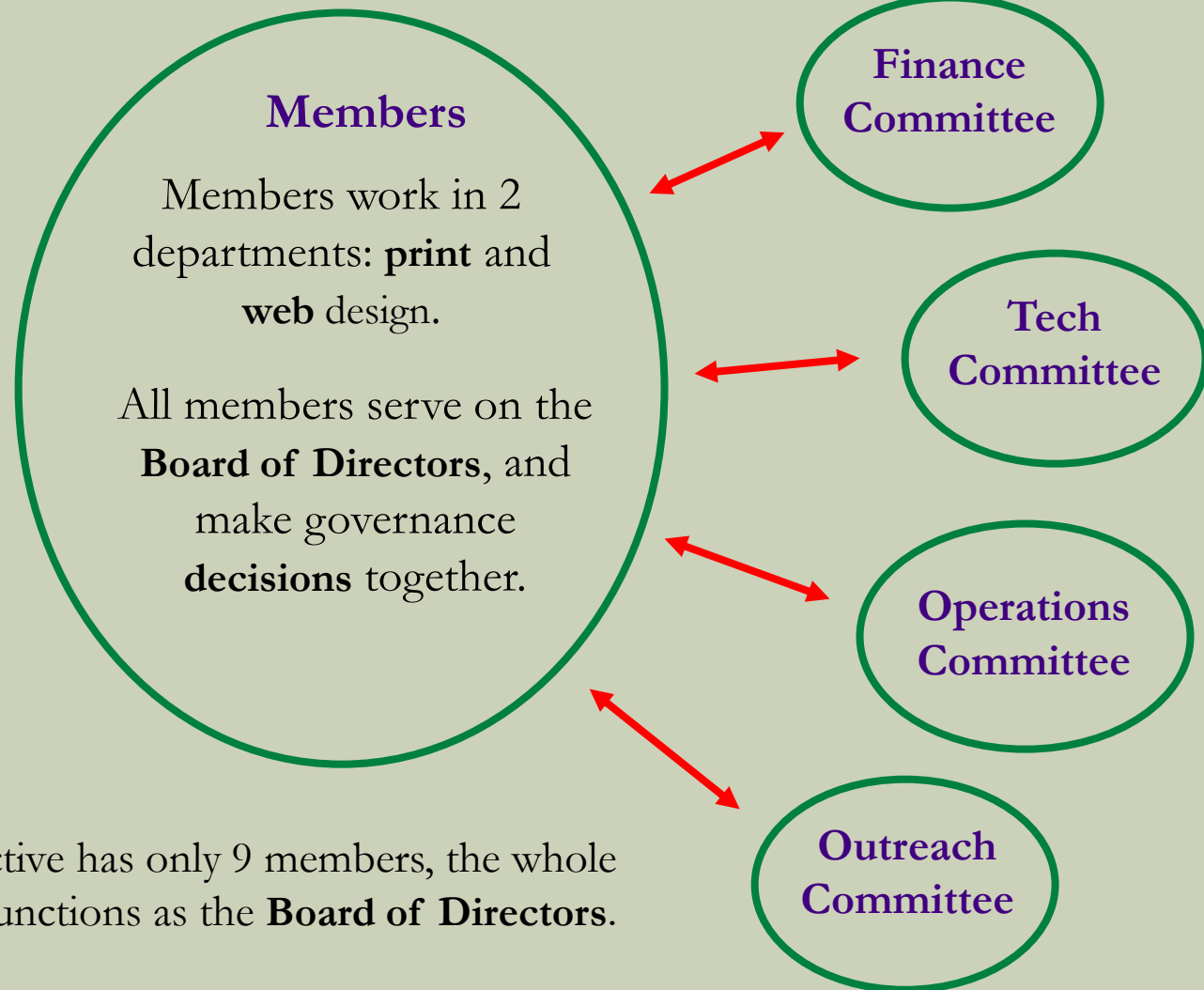


**Design Action Collective** is a graphic designers' co-op in Oakland, California. DAC began in 2002 as an off-shoot of Inkworks Press, a worker-owned printing business. DAC creates images for both print and online media for progressive non-profit and social change organizations.

# Design Action Collective: a Design Cooperative

Each committee is responsible  
for a different aspect of the  
**management.**

However, all members  
learn about finances  
and other aspects of  
administration, and  
assist with a variety of  
tasks as needed.



Because the collective has only 9 members, the whole  
collective functions as the **Board of Directors.**



# Equal Exchange: a Fair Trade Cooperative



**Equal Exchange** was launched in 1986 in West Bridgewater, Massachusetts. Equal Exchange partners with small organic farming cooperatives in the US and abroad, and pays farmers a guaranteed “fair trade” price. Using raw ingredients purchased from farming cooperatives, Equal Exchange produces and distributes coffee, tea, and sweets. Equal Exchange is co-owned by its coffee roasters, warehouse workers, sales people, and administrators.

# Equal Exchange: a Fair Trade Cooperative

The members **elect** and **serve on** the Board of Directors, filling 6 of the 9 seats. The other 3 seats are filled by outside participants.

Members can also serve on Board committees.

**Board of Directors**

The Board is responsible for the **governance** of the cooperative.

**Office of Executive Directors**

The Board **hires** and **supervises** the **Office of Executive Directors (OED)**.

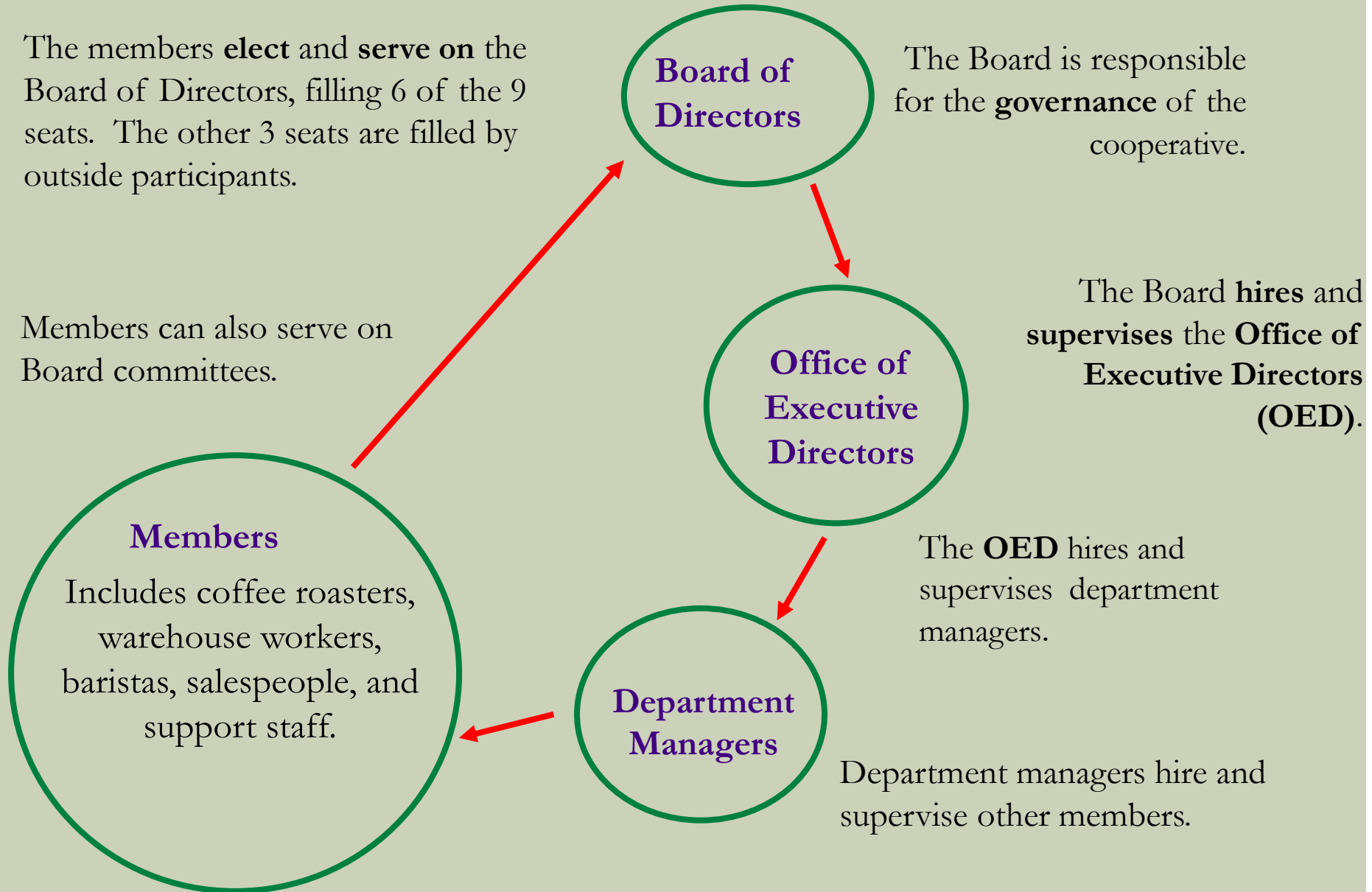
**Members**

Includes coffee roasters, warehouse workers, baristas, salespeople, and support staff.

The **OED** hires and supervises department managers.

**Department Managers**

Department managers hire and supervise other members.



# SO WHAT IS A CO-OP?

- Beyond some basic features, the co-op is whatever you make it.
- You have lots of freedom in designing the businesses you want to work in.

# HISTORY OF WORKER CO-OPS

# ROCHDALE PIONEERS

- The 7 Cooperative Principles originated with a consumer co-op in England called the Rochdale Society of Equitable Pioneers, founded in 1844.
- They also seem to be the first co-op to use a formal patronage distribution system, and so the legal framework for US cooperatives can be thought of as originating with them.
- However, this doesn't mean cooperatives were invented by a bunch of English men.



# BIG MOMENTS IN CO-OP HISTORY: ARGENTINA



Many workplaces organized to protect the buildings and machinery – today 200 are operating as cooperatives, with 10,000 worker-owners

2001 Economic Collapse led to capitalists divesting in manufacturing



# MORE HISTORY

- As capitalism got organized and advanced around the globe, cooperators around the world have responded by formalizing traditional cooperative practices, and creating modern cooperatives.
- Examples of co-ops around the world: Africa, India, Asia, Central & South America
- Cooperatives have also been forced on the population to ill effect in many countries: Vietnam, China, Uruguay, Russia. Not every culture has a positive association with co-ops.
- US Co-op History: Ben Franklin co-op, Rural Electric Co-ops, California self-help movement, African American Co-ops
- Co-ops as an anti-poverty strategy

# WHAT IT MEANS TO BE A MEMBER



# RIGHTS AND RESPONSIBILITIES OF MEMBERSHIP

- Participation
- Capitalization
- Education
- Accountability
- Governance
- Board of Directors
- Entrepreneurship



Photo by Carla Murphy

*Apple Eco-Friendly Cleaning co-owners regularly meet at member Luz Maria Arias' fourth floor walkup in Jackson Heights.*

# HOW DO WE START A CO-OP?

Good  
Question!

# TWO WAYS TO START A CO-OP

## Start a new business from scratch

### Pros:

- Freedom to organize it how you like

### Cons:

- New businesses fail in their first three years, most of the time
- Takes a lot of money and a lot of (unpaid) time

## Convert an existing business into a co-op

### Pros:

- A proven business model
- You can get paid while you're working out the deal

### Cons:

- The owner might want a lot of money for the business
- The relationship between the old owner and the new co-op can be a tricky one

# CHECKLIST FOR A NEW CO-OP

- ☑ A steering committee of at least 3 people who want to join the co-op
- ☑ A good business idea
- ☑ A development plan and budget
- ☑ A business plan
- ☑ A legal structure, and a tax designation
- ☑ Bylaws, or an Operating Agreement, and Governance procedures
- ☑ Support from a lawyer, accountant, co-op specialist, graphic designer, web developer, research assistants, etc.
- ☑ Startup Funding
- ☑ Peer Assistance/Networking
- ☑ Licensing & Insurance
- ☑ Decision Making Procedures
- ☑ Company Policies & Procedures manuals
- ☑ Job descriptions and evaluation procedures
- ☑ An education & training plan
- ☑ Sales and Marketing plans
- ☑ Good customer service and quality control

# WHAT CAN GO WRONG?

Very Good  
Question!

# PUBLIC BENEFITS

- Many of us receive benefits that are tied to our income, such as WIC, Section 8, Social Security income, free or subsidized medical care. If the cooperative is successful and you start earning more income than before, you might lose these benefits and your expenses could go up.
- You should be especially careful about this if you choose “pass-through” taxation for your co-op.



# LIABILITY

- If the co-op gets into legal or financial trouble, each and every member can be held liable in a legal or financial sense. The legal entity (the corporation or LLC) of the co-op exists to protect members from this liability, but this protection only exists if you practice good governance.
- If you fail to practice good governance by mingling business and personal funds, or by failing to keep up with the corporate paperwork, creditors can make a case that the Corporation was just a front, and they could go after your personal assets for liabilities you incur through the co-op.



# HOW TO LOSE YOUR MONEY PART 1

- As a member of the co-op, you are an entrepreneur and will invest your own money in the business. Over the years, if the business is successful, your investment in the business could grow. But if the business loses money or cannot pay its debts, you can also lose all the money you invested in the co-op. If you practice good governance, you cannot lose **more** money than you invested.
- Unless...





# HOW TO LOSE YOUR MONEY PART 2

- Most businesses need to borrow money. Usually, a lender will require that you offer collateral (a "guarantee") for a loan, such as land, a building, a vehicle, machinery, or cash. If you are not able to pay back the loan, you can lose your collateral.
- In many industries, an owner of the business is required to sign a personal guarantee to repay a business debt, in order to get a loan or a credit account from a vendor (supplier). If you as a worker owner sign a personal guarantee, you no longer have the legal protection of the co-op, and it is possible that assets you own (a home, car, or bank account), can be taken to repay that debt.
- If you live in a home you own in Massachusetts, your home cannot be taken to repay a debt if you file a "Declaration of Homestead" – except by foreclosure.



# KNOW YOUR EMPLOYMENT LAW

- Some co-ops are organized so that members do not earn wages or salaries – they only take a “draw” from the profits, which is their right as owners. If you choose to organize this way, you are not required to pay Worker's Compensation Insurance on yourselves, and may not be subject to other employment laws.
- If you choose not to carry Worker's Comp, you are not protected if you are injured on the job, and your medical bills and lost income are your own responsibility.
- Employment laws carry many important protections, like minimum wages, health insurance requirements, and safety protections, and unemployment eligibility. It's much better to be treated as employees, unless you have a very good reason not to.

# BE AWARE OF TAX OBLIGATIONS

- The cooperative is required to report financial information to the government, including payments to subcontractors, wages paid to employees, and income earned by member owners. If you do not file a tax return, the government will know you have income that you have not reported. It is important to file a tax return every year, and as a self-employed person, you might also need to make quarterly tax payments as well.
- There are big fines from the state and federal government if the co-op fails to pay sales or payroll taxes.



# THIS STUFF IS SERIOUS

- Starting a co-op is not a game. You are creating a real business with legal and financial responsibilities and very real consequences if you don't do it well.



# WHO CAN HELP US?

I'm glad  
you asked.

# YOUR FELLOW COOPERATORS

- Remember Principle 6: Cooperation Among Cooperatives? Worker Co-ops take this very seriously. They want you to succeed, because when you look good, we all look good.
- Start with your local worker co-op association. In Boston we have WORC’N, the “Worker Owned and Run Cooperative Network”. WORC’N holds monthly Co-op 101’s and peer resource groups: [worcn.org](http://worcn.org)
- Talk to individual co-ops, especially those in the same industry as you. Directories of co-ops are available at [find.coop](http://find.coop) and [cooperateusa.coop](http://cooperateusa.coop)



# USFWC AND DAWN

The US Federation of Worker Cooperatives ([usworker.coop](http://usworker.coop)) is a small but dedicated organization with an office in San Francisco. They offer many resources:

- The Democracy at Work Network (DAWN) is a national network of members of existing worker co-ops, who have been trained to give assistance to new co-ops (for a reasonable fee).  
[dawn.coop](http://dawn.coop)
- USFWC's website has a resource library of founding documents of other cooperatives that can be extremely helpful when developing your own documents.
- USFWC has a conference every other year (even years) that is a must for startup and existing cooperatives. They also maintain a national email group with a searchable archive that's where co-op people go with questions. Search the archive first for your question!

# ECWD

- In odd-numbered years, the Eastern Conference for Workplace Democracy holds its regional conference.
- This year's conference is in Philadelphia, July 26-28, 2013.
- This of this as Co-op College. Scrape together the money and go, it's worth it.





# CO-OP DEVELOPMENT CENTERS

- Boston Center for Community Ownership is a local grassroots co-op development center that focuses on education, training, and facilitation for worker and consumer co-ops.
- The Cooperative Development Institute is the rural co-op development center for New York and New England. They do a lot of work with agricultural and housing co-ops.
- ICA Group is a consulting firm in Brookline that's been around since the 1980s. These are the folks that got Massachusetts' first in the nation co-op law passed. They work nationally and focus on projects that have a big impact.
- Ownership Associates is a consulting firm in Cambridge that focuses on ESOPs and employee buyouts.

# CFNE: YOUR NEW BEST FRIEND

- The Cooperative Fund of New England funds just about every worker, consumer, housing, and agricultural co-op in our area.
- They want to lend money to worker co-ops, but they are only going to do so if you're really ready.
- This is Maggie Cohn. She's our loan officer for southeast New England. She is friendly and helpful, and it's never too early to talk with her. She will help you get ready to apply for a loan.



# APPENDIX: THE INTERNAL CAPITAL ACCOUNTS STRUCTURE

How  
member  
equity  
funds the  
co-op

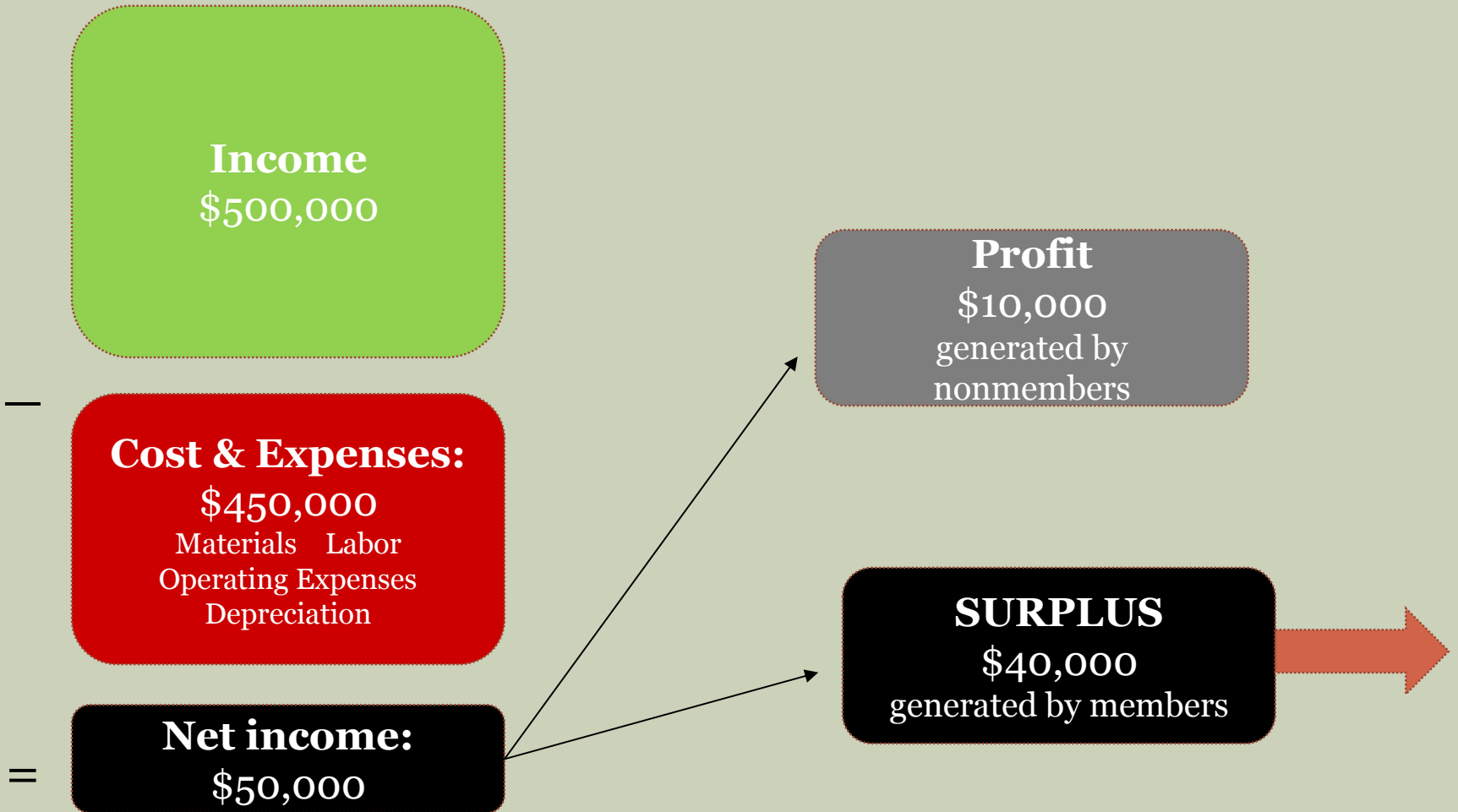
# Member Capital Accounts

Member Equity

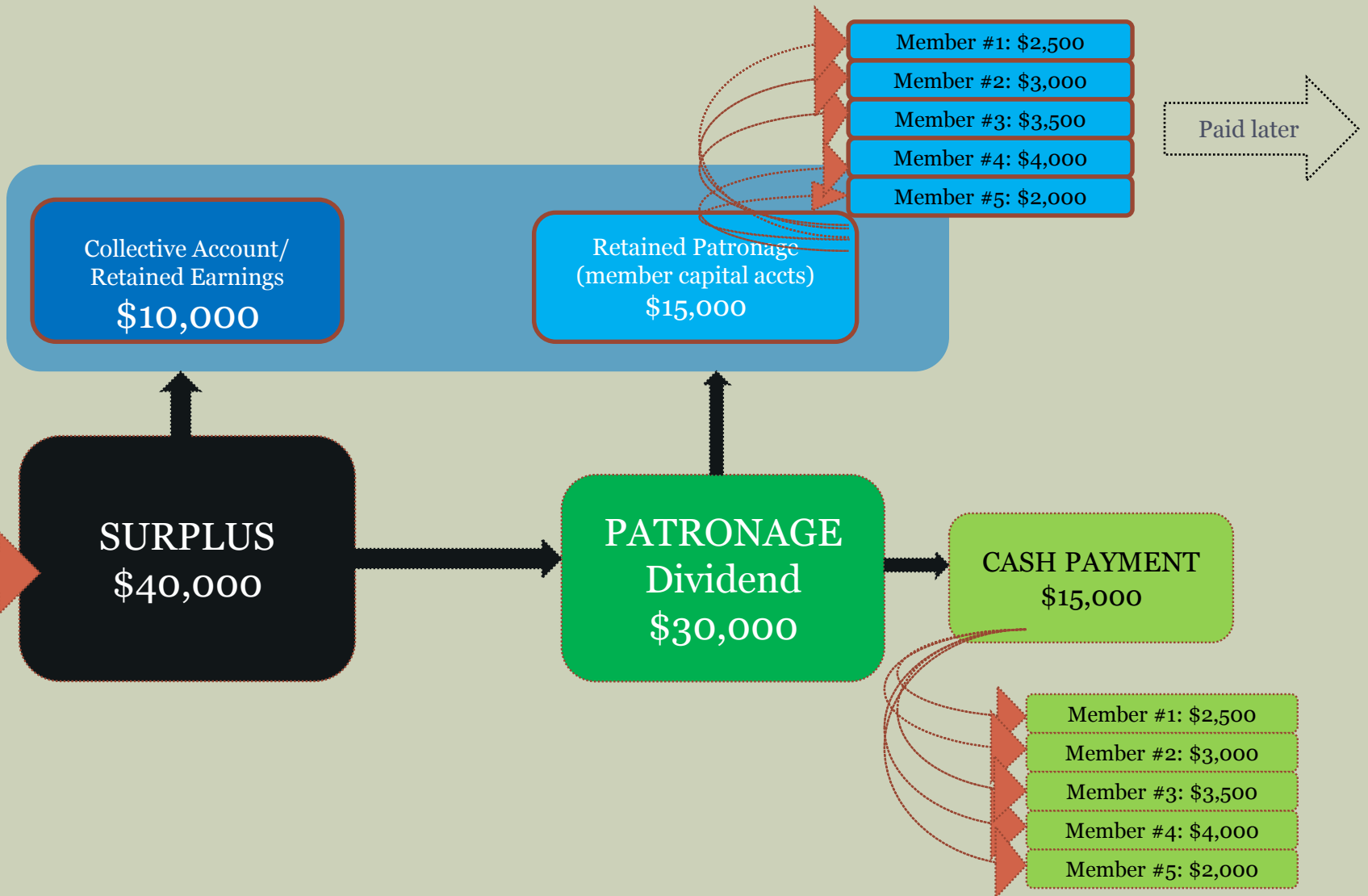
Member Equity

Member Equity

# Surplus



# Patronage



# Member Capital Accounts

