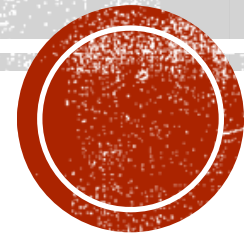


COOPERATIVE LAND OWNERSHIP

Farm Succession Advisors Training

Other Land Access Tools

Annette Higby, Attorney at Law



COOPERATIVE LAND OWNERSHIP

- Potential for providing affordable land access for multiple producers on one farm property.
- Unique legal structure with respect to voting rights, distribution of profits, initial capital contributions, and the purposes of the business.
- See Comparative Chart



COOPERATIVE LAND OWNERSHIP

- In a non-cooperative business voting rights usually (but not always) determined by capital share.
- In a cooperative legal structure, every member has one vote regardless of capital share.



COOPERATIVE LAND OWNERSHIP

- In a non-cooperative business, profits are usually (but not always) distributed on the basis of capital share.
- In a cooperative legal structure, profits are distributed in proportion to the member's use of the cooperative.
- A “patronage dividend” encourages members to do business with the co-op rather than some other business.
- In a land co-op, the patronage paid is rent or other assessments to cover the co-ops costs.



COOPERATIVE LAND OWNERSHIP

- In a non-cooperative business, initial capital contributions can vary a great deal.
- In a cooperative legal structure, initial capital contributions are most often equal.
- Some state statutes limit the percentage of capital that can be owned by any one member.



COOPERATIVE LAND OWNERSHIP

- In a non-cooperative business, the purpose of the business is to make money for its shareholders or members.
- In a cooperative legal structure, the purpose of the business is to provide goods and services to its members at cost.
- Profits are returned to members on the basis of their patronage.



COOPERATIVE LAND OWNERSHIP

International Cooperative Alliance, Cooperative Principles:

1. Voluntary and Open Membership
2. Democratic Member Control
3. Member Economic Participation – equal and democratic
4. Autonomy and Independence – retain member control
5. Education, Training and Information – leadership development among members
6. Cooperation among cooperatives
7. Concern for Community



COOPERATIVE LAND OWNERSHIP

State Cooperative Formation Statutes in New England

- Specific formation requirements for producer marketing co-ops, consumer co-ops, worker co-ops and credit unions.
- In some states you may also form a cooperative under the general corporation formation statute if the entity meets certain requirements related to cooperative principles.
 - One member, one vote
 - Minimum number of members
 - A reserve requirement
 - No member may own more than 10% of the capital
- Not always a good fit.



COOPERATIVE LAND EXAMPLES AND CASE STUDIES

Poudre Valley Community Farms

- A Colorado based multi-Stakeholder cooperative still in the formative stage.
- Members are to be farmers, consumers and restaurants.
- Farmers rent land at market rates.
- Patronage dividends paid on the basis of food purchased from co-op producers.
- Multi-Stakeholder co-ops can present conflicts of interest



COOPERATIVE LAND EXAMPLES AND CASE STUDIES

Lost Meadow Land Cooperative West Corinth, Vermont

- Multi-Stakeholder land cooperative – residential land cooperative looking for new farmer member.
- Ground Leases for home sites for a 20 year, renewable term.
- Lessees pay real estate taxes, carrying charges and assessments.
- Improvements are owned by the Lessees and may not be sold without Co-op Council consent.
- Lease is inheritable.



COOPERATIVE LAND EXAMPLES AND CASE STUDIES

Lost Meadow Land Cooperative
West Corinth, Vermont

- Members purchase one or more common shares at price determined by Council.
- Net profits allocated on the basis of member patronage.
- Redemption only available on terms as determined by the Council and only when replacement capital is available.
- One member, one vote.



COOPERATIVE LAND EXAMPLES AND CASE STUDIES

Feasibility Case Study

- 4 separate farming operations explored feasibility of cooperative land ownership of a farm capable of supporting two diversified vegetable operations, one dairy and one beef operation.
- Membership was to be limited to farmers, and rental payments would form the basis of patronage.
- Purchase price was \$574,000. Cooperative Fund of New England required 20% in cash equity or \$27,612 per member.



COOPERATIVE LAND EXAMPLES AND CASE STUDIES

Feasibility Case Study

- Initial capital outlay was too steep for several of the prospective members.
- Annual debt service financed through lease payments was also a challenge for some.
- Other members preferred to invest limited capital into their own farming operations rather than a land cooperative.
- Many landowners in the area were offering land access for free.
- Operations were all at varying stages of development and viability.
- For the newer operations the prospect of committing capital, time, and energy into a new entity was not appealing.



COOPERATIVE LAND EXAMPLES AND CASE STUDIES

Well Spring Land Co-op
Marshfield, VT

- Legal structure is very similar to Lost Meadow.
- Two house sites were split off from the co-op to enable members to obtain a mortgage.
- In addition to a ground lease for the home site, members enter into an agricultural lease for farm land.



CONCLUSIONS

- Cooperative land ownership can make land access more affordable.
- Start with a feasibility study!
- If multi-stakeholder, identify and address conflicts of interest.
- Educate clients on unique legal structure and cooperative governance.
- Taxation is unique and specialized tax advice is essential.



CONCLUSIONS

- State cooperative formation statutes can be arcane and not a good fit.
- Farm operations should be in a similar developmental stage and in similar economic status.
- Difficulty of obtaining a mortgage on homes and agricultural improvements.
- Consider redemption and dissolution provisions carefully.



