

April 2, 2019

To: Joint Committee on Judiciary Legislative Office Building Room 2500 300 Capitol Avenue
Hartford, CT 06106-1591

To the Honorable Members of the Committee:

I write to ask that you support the passage of Proposed Bill No. 138: An Act Modernizing the State's Cooperative Association Statutes, with one amendment as noted below.

My name is Doug O'Brien, and I am the president and CEO of the National Cooperative Business Association CLUSA, which is the apex trade association for cooperatives in the United States.

This bill holds the potential of making it easier for people in Connecticut to form cooperatives and to grow existing cooperatives. As you know, 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 with the 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.

Because of the special nature of this business model, cooperatives have proven to be an excellent strategy to encourage local ownership, job creation, and marketing of local products. Further, given that the business is owned and controlled by the people in the community who use the business, co-ops tend to act in ways that more fully reflect the community's values and priorities.

When the legal enabling environment supports people who want to use this business model, co-ops thrive. Fully **one in three Americans** are members of cooperative businesses, and there are nearly **6,500 cooperative establishments** in the U.S. People choose to use this business model in nearly every business sector – including agriculture, utilities, professional services, food retail, and consumer financial institutions (credit unions). Members of cooperatives can be producers, consumers, or workers in the business.

Moreover, cooperatives make a significant impact to help build a more inclusive local economy. Cooperative businesses create a more participatory enterprise and give members a voice in the actions of the company that they use. Cooperatives have long been a solution in social disadvantaged or under-resourced communities and help lift up people through a sustainable business model that thrives on democratic governance and autonomy. As co-owners, cooperative members also create opportunity for people to build wealth and reap a greater share of the income they help create.

Further, Connecticut should modernize its cooperative laws to prepare for a generational business opportunity. Currently, about half of all of America's small businesses are owned by members of the Baby Boomer generation. Over the next 15 years, these small business owners will be retiring. Of all small business owners, nearly 60 percent have no business succession plan in place, only 20 percent of businesses put up for sale find a buyer. Cooperatives present a strategic opportunity for community members to continue these local businesses and ensuring that the jobs and economic activity remain in Connecticut communities. But only if the state law is conducive to people choosing this business model.

As I noted at the beginning of this testimony, I would propose one amendment to the bill, which is that I that the word to replace [managers] in line 86 should properly be "directors" and not "shareholders." When a co-op grows to hundreds or thousands of members, obtaining consent of the shareholders to admit new members would be unwieldy and impractical. This authority is typically vested in the Board of Directors as fiduciaries of the co-operative.

I urge the committee to pass this important legislation and create a policy environment where cooperative businesses can thrive.

