NCBA CLUSA
The National Cooperative Business Association • CLUSA International

THE COOPERATIVE BUSINESS PLAYBOOK

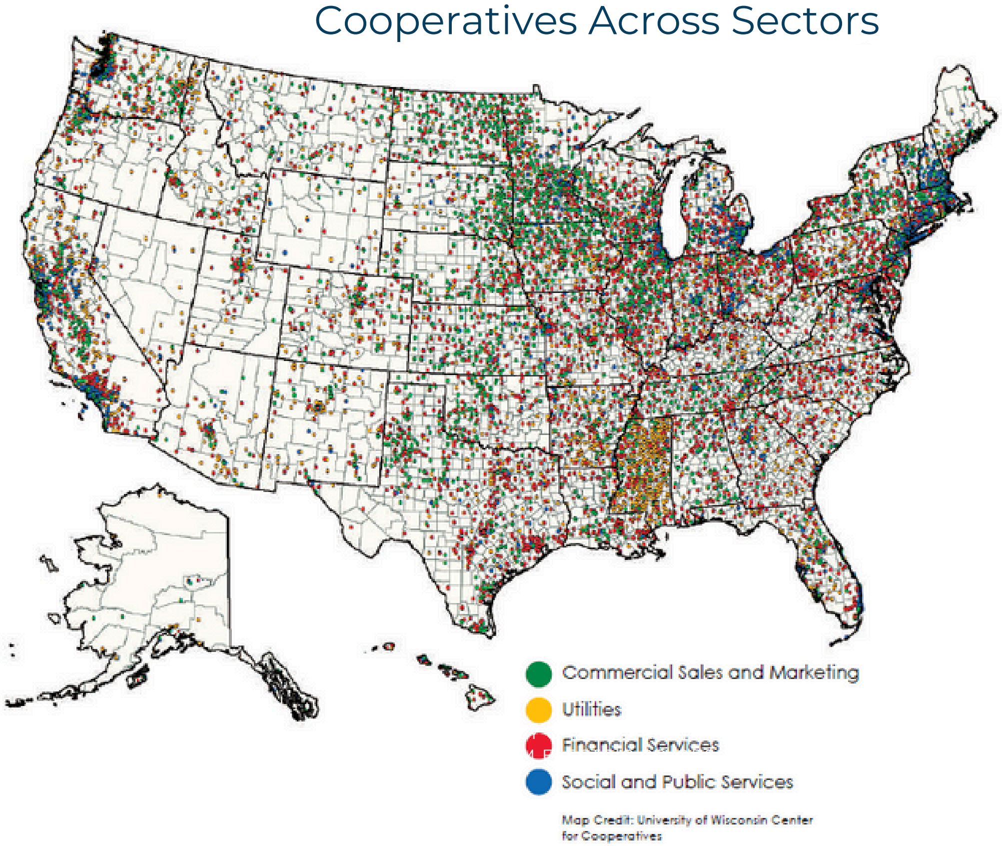
A Policymakers Guide to Economic Security through Cooperatives

The National Cooperative Business Association (NCBA CLUSA) is the apex association for cooperative businesses across all sectors of our economy. NCBA CLUSA works to build a better world with an economy that works for everyone.

The United States has nearly 65,000 cooperative establishments and more than 130 million members who own these businesses. One in three Americans is a member of a cooperative across many different economic sectors including agriculture, electricity, housing, finance (including credit unions), worker-owned entities, information technology and the care economy.

People look to cooperatives for three primary reasons: 1) to address market failures where neither the existing private sector nor the government has an answer; 2) to help small players compete with larger businesses; and 3) to give consumers a deliberate choice of enterprise to better meet their common needs and aspirations.

Cooperatives Across Sectors



As democratically owned and governed businesses, the member-owners of cooperatives prioritize business decisions that serve the members and their communities. Compared to other business models, cooperatives across sectors

- **Have greater business survival rates**
- **Reinvest** back into the local economy at higher rates
- **Create and maintain** more and higher quality local jobs
- **Source** more goods and services locally
- Are more **responsive** to community needs
- Feature **higher worker productivity** and lower workforce turnover
- **Empower** member-owners to be more civically engaged

TAX STATUS AND EXPIRING PROVISIONS IN 2025

About Cooperative Tax Policy

Current federal tax policy reflects the fact that cooperative businesses create direct economic benefit for their members— the people who use, own and control these businesses. Cooperatives are taxed at the individual level or at the entity level but not usually both given that the people who use the business also own and control the business. These policies put more dollars in the pockets of working families and helps small businesses and farmers compete. The 2017 Tax Package provided increased support for the value that cooperatives provide through shared ownership under the 199A or “pass-through” entity deduction, however, it is set to expire in 2025.

POLICY POINTS

Preserve cooperative tax treatment and extend the 199A deduction for cooperatives

- The tax treatment of most types of cooperatives is found under Subchapter T of the Internal Revenue Code. It enables flexibility and efficiency in the cooperative model.
- Under Subchapter T, cooperatives may pass through their earnings to their member-owners without double taxation; earnings from business conducted with or for a cooperative’s members are subject to single tax treatment as income.
- Earnings from sources other than business with or for the cooperative’s members are taxed at regular corporate rates.
- Section 199A allows cooperatives to deduct up to 20% of pass-through income, which strengthens the direct economic benefits returned to the people that own and control them, and ultimately puts more dollars into local economies.
- Federal tax policy should ensure that the farmers, consumers, employee-owners and entrepreneurs are treated fairly and not put at a disadvantage compared to other business forms. Extending the 199A deduction for cooperatives is crucial to creating more resilient communities and a thriving economy.
- Cooperatives and credit unions with tax-exempt status are not-for-profit institutions that return earnings to member-owners. Removing this status would undermine their ability to serve low-income, rural, and historically underserved populations with a devastating impact on local economic growth.
- Renewing innovative measures like a direct pay tax credit for housing cooperatives can help address the affordable housing crisis and provide a pathway to homeownership with incentives for development.

The Care Economy and Cooperative Ownership

About Home Care and Childcare Cooperatives

As the U.S. population ages, the care economy faces a difficult task to support the growing demand. The home care industry currently has a caregiver turnover rate of 64%, while homecare cooperatives average only 30%. Similarly, childcare centers struggle to retain skilled employees and families bear the burden of costs. To support a thriving workforce, provide high-quality jobs for employees, and reassurance for families through quality care, cooperative businesses should be at the center of the care economy.

POLICY POINTS

Cooperatives in the Care Sector

- Home care cooperatives are structured to value, support and reward homecare employees in a field experiencing enormous turnover. As employee-owned businesses with higher productivity, cooperatives provide better on-the-job training and higher wages resulting in decreased turnover and higher quality, consistent care.
- Childcare facilities are critical to ensuring that communities across the country can thrive. Having quality, reliable childcare allows parents to actively and fully participate in the workforce, supports early education for the next generation, and creates jobs in the community. Converting childcare facilities to cooperatives can preserve legacy businesses while filling the urgent needs for good stable jobs and care.
- Employee-owned cooperatives are two-thirds more likely to succeed than traditional businesses while enjoying 5% higher productivity. Cooperatives can also be owned by many stakeholders such as employees, families, consumers, and more, who also have a say in how the business is run.
- Worker-members are by definition local owners, generating significant potential economic multiplier effects as wages and profits are kept in the community rather than sent to outside investors. Employee-ownership keeps assets invested locally and selling a business to employees is an increasingly popular alternative for retiring small business owners.

INVESTING IN A RESILIENT & FUTURE-PROOF ECONOMY

About Agency Implementation of Investments and Cooperative Eligibility

Across agencies, the federal government has recognized the power of cooperatives to drive a robust and resilient economic agenda. Recent investments to address our nation's infrastructure, markets, manufacturing capabilities and affordability crisis have created an opportunity to address the threats to our economy through direct support for cooperative businesses. These investments are crucial for the wellbeing of our communities and should be successfully implemented to boost economic growth.

POLICY POINTS

Invest in Time-Tested Models to Drive Economic Growth: Cooperatives level the playing field for farmers, workers, consumers, residents, and small businesses

- Successful implementation of recent investments is critical to supporting cooperatives and local economic growth. As cooperatives lead the way in addressing our nation's crumbling infrastructure, key supports like Direct Pay Tax Credits and Regional Technology should receive the necessary support that allow cooperatives to create jobs, drive energy and technology innovation, and empower consumers.

- Across the cooperative sectors, Rural Electric Cooperatives, Employee-Owned Worker Cooperatives, Community Development Financial Institutions (CDFIs) and other Financial or Consumer Cooperatives, Agricultural Cooperatives and Development Organizations, local businesses are creating a positive ripple effect across their communities.

- Cooperatives exist across every sector of the economy contributing significantly to national and local GDP. Measuring and distributing Cooperative Data from the Census Bureau's 2017 and 2022 Economic Census would increase efficiency of federal efforts.

- Cooperatives are an effective way to maximize the return on federal investment to address the challenges of today and create resilient communities of tomorrow. The Interagency Working Group on Cooperative Development and Department of Labor Employee Ownership Initiative are key federal agency efforts that support access to resources, technical assistance and streamlining for cooperative development.

ACCESS TO FINANCING THROUGH SBA 7(A) LOANS

About Cooperatives and the Small Business Administration

As a generation of small business owners near retirement, half of the these businesses are at risk of buyout or closure and a potential loss of almost 33 million jobs. More and more business owners are considering converting to worker or consumer-owned cooperatives to preserve these businesses. Worker cooperatives are a form of employee-ownership where employees own the business, benefit directly from its financial success and have a say in how it is governed on a day-to-day basis. The Small Business Administration's (SBA) charge is to help business owners receive financing. The SBA, continues to implement prohibitive regulations that effectively bar aspiring entrepreneurs from accessing its primary offering—the 7(a) Loan Program.

POLICY POINTS

Level the playing field for cooperative businesses within SBA loan programs: Waive the personal guarantee requirement for co-ops

- The SBA's primary business loan program is the 7(a) Program, which can be used for purposes that are very important to the health of a small business including working capital, debt refinancing, or changes in ownership.
- Through prohibitive regulations, the SBA requires individuals who own 20 percent or more of a small business to provide a personal guarantee to access the 7(a) program.
- While explicitly eligible for the 7(a) program, cooperatives are denied SBA financing because: (1) Typically, no single member-owner holds 20 percent or more of the business. (2) Member owners have an equal one-share vote, so no group of owners holds a majority.
- Waiving the personal guarantee for cooperative businesses is not unprecedented. The 2020 pandemic relief programs leveled the playing field and is the only reason many cooperative businesses were able to survive. At least 96% of cooperatives who accessed these programs are still in business today.
- The SBA's claims that the personal guarantee ensures owners are invested in the business' viability is redundant when applied to cooperatives because they are 100% member-owned.
- Congress passed the Main Street Employee Ownership Act, which required SBA to explore alternatives to the personal guarantee requirement for cooperative businesses; however, almost a decade later, the agency has yet to propose a meaningful solution and codified the overburdensome regulation in May 2023.

ADDRESS THE AFFORDABLE HOUSING CRISIS THROUGH COOPERATIVES

About the Department of Housing and Urban Development (HUD)

HUD was established to address the nation's housing needs. Since its creation, HUD has recognized Shared Equity Housing Models, including cooperatives, as a strategy to expand homeownership opportunities. Limited Equity Cooperatives and Resident Owned Communities (ROCs) for manufactured housing increase and preserve permanently affordable housing. Ensuring that residents have greater access to financing and technical assistance to preserve and develop affordable cooperatives will help HUD address the affordable housing crisis.

POLICY POINTS

Modernize HUD and other federal programs to create permanently affordable housing through cooperatives

- Housing Cooperatives are a proven strategy to expand affordable housing, particularly for low-income residents. Limited Equity Cooperatives (LECs) are a stable and effective way to provide permanently affordable housing.
- Resident Owned Communities (ROCs) allow residents in manufactured housing parks to have ownership and democratic control of their communities while preserving affordability.
- Section 213 is the only cooperative-specific program offered by HUD, and finances new or existing housing cooperatives. While the program has primarily been used to support senior housing, the federal government should modernize this and other federal programs to support all individuals housing needs.
- In 1955 the National Housing Act directed HUD to appoint a Special Assistant for Cooperative Housing. The position, however, has been vacant for years. As the nation seeks to address the affordable Housing Crisis, HUD should appoint a Special Assistant to provide increased efficiency and the necessary support for cooperative housing development.
- Section 8 can be used to support residents in affordable cooperatives through rental vouchers to pay the carrying charges of the cooperative. Project Based Section 8 allows flexible financing to help develop affordable co-ops. Additional guidance and education should be provided to HUD staff and developers to better support this intended use of the Section 8 Program.

REAUTHORIZATION OF THE FARM BILL

About the Farm Bill

Every five years, the Federal Government sets national agriculture, rural development, nutrition, conservation, international food aid and forestry policy, commonly referred to as the “Farm Bill.” The Farm Bill provides an important opportunity for policymakers to comprehensively address agricultural and food issues.

While anticipated reauthorization of the 2018 Farm Bill was set to occur in 2023, Congress has extended the bill in search of policy that meets the needs of agriculture, nutrition programs, global food security and rural economies in the face of current challenges.

NCBA CLUSA urges the Federal Government to prioritize cooperative businesses in the Farm Bill to equip rural communities with the tools to build capacity and drive a robust, prosperous rural economy.

POLICY POINTS

Build Capacity for Rural Communities through Direct, Flexible Support for Locally-Led Development

- There are over 46 million residents of rural America and 81% of persistent poverty counties are designated rural, with a disproportionate impact on historically underserved communities.

- A history of underinvestment has left rural communities without adequate staffing and resources to compete for federal funding to support the varying needs of residents. The Farm Bill presents an opportunity ensure rural America gets a fair share of private and federal investments.

- The Rural Partnerships and Prosperity Act would provide direct, flexible investments for economic development to address urgent needs in rural communities like childcare, housing and workforce training. By supporting these direct investments through technical assistance providers and a whole of government approach, rural communities would be able to access the meaningful and necessary federal support to unlock their full economic potential.

- Cooperatives are a proven and time-tested model for increasing economic opportunities. They serve as local and regional anchors instititutions with multiplier effects in their communities. As user-owned, democratically controlled businesses, the cooperative business model provides direct monetary benefits to member-owners and reinvest in the local economy. Cooperatives and development organizations would be eligible partners for the Rural Partnership Technical Assistance Program.

POLICY POINTS

Bridge the Digital Divide: Ensure all residents have access to a robust and reliable broadband connection

- Rural electric cooperatives serve 42 million households - including 92% of persistent poverty counties - and are leading the charge to bridge the digital divide.
- More than 200 electric cooperatives are deploying or developing plans to deliver broadband service to their consumer-owners, creating new ways for rural communities to live, learn and earn.
- The ReConnect Program is currently a pilot program that offers loans, grants and loan-grant combinations to entities, including cooperatives, for broadband deployment in rural areas with insufficient broadband access. USDA broadband programs should be streamlined and ensure cooperatives have fair access to the ReConnect Program.
- Efforts that would codify and streamline broadband programs, clarify eligible areas for prioritized deployment, and establish minimum 100Mbps symmetrical buildout speeds are meaningful tools to create scalable networks and future-proof communities.

POLICY POINTS

Maintain Affordable Energy Infrastructure Upgrades in Rural Communities: Modernize the Rural Energy Savings Program (RESP)

- RESP provides zero-interest loans to electric cooperatives to establish or expand residential and small business energy efficiency improvement programs.
- RESP supports the creation and expansion of on-bill financing programs where energy investments are repaid via the utility bill with no upfront costs to help residents bring down everyday energy costs.
- Improvements to the RESP would streamline the program and encourage increased participation. Rural communities would be able to lower energy costs through changes like reducing administrative burdens for electruc co-ops and codifying existing eligible uses such as manufactured housing and last mile broadband.

POLICY POINTS

International Food Programs Support Locally-Led Cooperative Development

- Cooperatives are key stakeholders of International Food Assistance Programs. The Trade title of the Farm Bill authorizes USAID-administered programs like Feed the Future and the Farmer-to-Farmer Program, along with USDA's Food for Peace and Food for Progress. Cooeratives are empowering people to build shared prosperity and well-being while improving our national security by prioritizing locally-led development.

- The Food for Progress Program strengthens markets for emerging international agricultural sectors and promotes trade opportunities for domestic agricultural producers.

- The Farmer-to-Farmer Program provides technical assistance from U.S. volunteers to agricultural stakeholders in 36 core countries. Cooperatives are integral to international education programs and locally-led development.

- The McGovern-Dole International Food for Education and Child Nutrition Program prioritizes cooperatives as a core tool to strengthen food security and eradicate hunger while supporting U.S. agricultural producers.

POLICY POINTS

Co-op Grocery Stores Reduce Food Insecurity and Support Local Economies

- The Supplemental Nutrition Assistance Program (SNAP) provides more than 41 million low-income individuals with monthly grocery benefits. As SNAP retailers, food cooperatives support community members and provide individuals with access to food that is often produced locally, making them a key strategy to address food insecurity.

- Grocery and food co-ops source five times more of their products locally than conventional stores. These businesses are owned by their communities, meaning they can better support local producers, schools, and community groups.

- Due to a lack of understanding of the cooperative business model, the SNAP authorization and reauthorization process may improperly disqualify food co-ops as SNAP retailers because of board elections. An inability to accept SNAP benefits can be devastating for low-income residents, particularly in rural areas, which make up 87% of the highest food insecure counties.

POLICY POINTS

Modernize the Rural Cooperative Development Grant (RCDG) Program

- The Rural Cooperative Development Grant (RCDG) program, administered through the U.S. Department of Agriculture Rural Development, is the only federal program that exclusively invests in the startup, innovation, and growth of cooperative businesses

- Cooperative Development Centers are designed to support the startup, expansion, or ongoing sustainability of cooperatives across sectors of the rural economy. Awarding multi-year grants, as authorized through the 2008 Farm Bill, would build capacity for RCDG awardees and maximize federal resources awarded through the program.

- The current approach of “scoring on a curve” by requiring Cooperative Development Centers to provide at least, and in many cases exceed, a 25% match disadvantages under-resourced and often more rural organizations.

- Streamlining the application and award compliance process by limiting redundant reporting requirements would make federal funds dedicated toward USDA RD programs more efficient.

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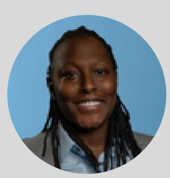

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