

St. Peter Food Co-op Chooses Flexibility in Reincorporation

BY STUART REID

St. Peter Food Co-op in Minnesota reincorporated under Minn. 308b statutes, one of the first state limited cooperative associations (LCA) options, in 2007. They decided to make the change in anticipation of a major expansion, after its recommendation by attorney Joel Dahlgren and careful review by their board.

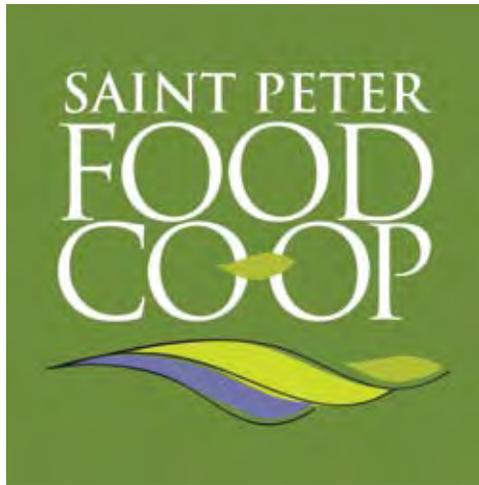
The co-op, located in a city with a population of about 10,000, needed to make major changes to its existing corporate structure in order to create the equity options they would need to raise nearly \$800,000 from their owner-members. Among the changes were:

- A change in the amount of member equity each owner was required to purchase, increased from \$80 to \$200.
- Additional flexibility for the board, including the option for an appointed board member (possibly a nonmember), and an easier procedure for future by-law changes.
- Establishment of dividend-paying shares (no defined payoff dates, with anticipated buy-back in years five through ten) so that capital could be raised as equity rather than debt (member loans), with two types of shares:
 - C-shares: \$1,000 at 3.5 percent interest rate—291 shares sold (half shares were also available at \$500).
 - D-shares: \$10,000 at 5 percent interest rate—49.5 shares sold.

Altogether, the co-op raised \$790,000 in C and D shares.

The co-op anticipated that many existing members would not be willing to increase their investment for the new \$200 ownership share and, in fact, membership dropped from about 1,900 to less than 1,000 when the new structure was introduced. The reduction included a significant number of members who had become inactive over the years and others that had no current contact information. However, new members have flocked in since the new structure was enacted.

By selling nonvoting, preferred shares, the co-op was able to reduce borrowing by nearly \$800,000. These shares offer an attractive interest rate and will be retired in the future when the co-op can afford to repurchase them. This high level of equity



helped enable the co-op to qualify for a USDA loan guarantee for its bank loan.

By Sept. 16, all of the financing had been secured. They have been approved for the USDA loan guarantee and for loans from Northcountry

Cooperative Development Fund, Wells Federal Bank, and the city of St. Peter.

If you are familiar with the new LCA statutes, you may be wondering what St. Peter Co-op did that required reincorporating under the new format. All of the changes that have been implemented so far could have been done under the traditional co-op statutes (in Minnesota, 308a). However, when the shares were first offered, St. Peter Co-op did not anticipate being able to raise the full amount of equity from patron members. Under LCA statutes, they were prepared to offer nonpatron investment options to fill the gap. While they did not need to use that option this time, it remains an alternative for future capital needs.

General Manager Margo O'Brien says that the board did a lot of research and thinking before adopting this approach. They used the advice of an experienced consumer cooperative attorney and made sure that their articles and by-laws protected the basic interests of the co-op and its members. In the end, the decision was not even controversial. ■

Food Co-op Initiative Releases Updated Legal Primer

The Legal Primer For Formation of Consumer-Owned Food Cooperatives is a free resource provided by Food Co-op Initiative. The revised, second edition is now available for download at <http://s.coop/4et>.

The Legal Primer provides an overview of the legal options for organizing consumer cooperatives, recommendations and templates for articles of incorporation and by-laws, and answers to common questions. The second edition has been updated to better explain the new LCA organizational structures and to provide a more balanced perspective on its advantages and potential drawbacks. The primer was designed to be helpful to both newly organizing food co-ops and established co-ops that are considering organizational change.

