



# Supporting Cooperatively Owned Businesses

City of Austin, Economic Development  
Department – Small Business Program

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# Background and Purpose

Based on input from co-ops and other stakeholders, the Small Business Program in the City of Austin Economic Development Department issued a Request for Proposals (RFP) to conduct research on national best practices for governmental support of the creation and development of co-ops. Morningside Research and Consulting conducted the research and prepared a report to address the following topic areas:

- Governmental support of co-ops nationally
- Funding methods currently and potentially available to co-ops
- Types of training used to promote the creation and development of co-ops
- Marketing strategies and techniques used for promoting the benefits of co-ops to the public.

# Methodology

- Local co-op questionnaire
  - Responses from 31 local co-ops provided useful information on where to direct research on emerging practices for co-op support nationwide.
- Interviews with co-op associations, cities that are currently providing co-op support, and other co-ops
  - 38 interviews conducted
  - Very successful; interviewees were candid and enthusiastic
- Review of existing literature on co-op development

# Emerging Practices for Co-op Support

- **Burlington, Vermont**
  - Provided assistance to 1 co-op grocery store using HUD CDBG, HUD BEDI, and an in-kind contribution in the form a long term lease on the City's old police station building
- **Cleveland, Ohio**
  - Cleveland Foundation (charitable org) created 3 worker-owned co-ops (Evergreen Co-ops) to provide services to key anchor institutions.
  - City of Cleveland has provided assistance to the Evergreen Co-ops in the form of small business loans, HUD grants, and the IRS New Markets Tax Credit program.
- **Denver, Colorado**
  - City designated about \$2 million in HUD CDBG funding to purchase and renovate a building for a co-op grocery store in a food desert area of the city.
  - City accepting proposals from new co-ops for how they can access HUD CDBG funds.

# Emerging Practices for Co-op Support (cont.)

- **Madison, Wisconsin**
  - Currently developing Cooperative Enterprises for Job Creation and Business Development program.
  - \$600,000 per year for 3 years for co-op technical assistance and a new co-op specific loan program
  - City also designated \$300,000 from Healthy Food Retail Program to establish co-op grocery store in a food desert area of the city.
- **Minneapolis, Minnesota**
  - City currently using general fund dollars to develop co-op support plan, then plans to implement a co-op technical assistance program, and co-op grant and loan program.
  - City provided funding through Tax Increment Financing to neighborhood associations who used the funding to award a low-interest loan to a co-op grocery store.

# Emerging Practices for Co-op Support (cont.)

- New York City, New York
  - New York City Worker Cooperative Business Development Initiative
    - FY 2015 \$1.2 million, and FY 2016 \$3.2 million awarded to 13 organizations that provide resources and training to co-ops.
    - To date, the program has resulted in creation of 21 new co-ops and assisted another 26 co-ops with expansion efforts.
  - City amended administrative code to track the number, dollar amount, and percentage of city contracts awarded to co-ops.
  - City declared a Worker Co-op Appreciation Day
- Oakland, California
  - City Council signed a resolution to support co-ops in order to address income inequality and create quality jobs. City currently working with the Sustainable Economies Law Center to develop a city ordinance to promote co-op development and growth.

# Challenges for Co-op Startups

- Access to traditional financing
  - Banks have a lack of knowledge of the co-op business model and see start-up co-ops as a risk– not unlike most small businesses.
  - Once co-ops establish membership, member equity can provide leverage for accessing traditional bank loans.
- Legal incorporation
  - The type of legal entity that co-ops must choose for incorporation varies from state to state. Texas has no “co-op” entity type.
  - Co-op associations believe there should be legal entity types for all the different types of co-ops (worker co-op, consumer co-op, etc.)

# Private Sources of Funding for Co-ops

- Member equity
  - Direct member loans
  - Investment shares for members
- Investors
  - Tiered membership system to allow members to become investors
  - Local Investment Opportunity Groups (LIONs)
- Private institutions
  - Partner with private groups with similar interests (CDFIs, Sustainable economy advocates, credit unions, etc.)
- Direct public offerings (crowdfunding)



# Public Sources of Funding for Co-ops

- Municipal small business loan programs
- Federal and state funding sources
  - Interviewees and the literature identified 13 sources of federal and state funding that have been used to support co-ops including:
    - Federal Historic Preservation Tax Incentives Program
    - IRS New Markets Tax Credits
    - SBA loans
    - State “Buy Local” grants
    - USDA
    - HUD CDBG
    - HUD BEDI
    - Federal CDFI Fund

# Other Support for Co-ops

- Providing locations
- Creating a customer based through anchor institutions
- Amending procurement policies (i.e. increase contracts with co-ops)

# Co-op Training

- Co-op training needs
  - General business skills training
  - Training on the co-op business model
  - Conversion of existing businesses to the co-op model
  - Initial and ongoing technical assistance
  - Peer learning
- Co-op training providers
  - Interviews and literature review identified 26 organizations nationwide that provide training and technical assistance to co-ops. Most of these organizations provide online resources.

# Co-op Marketing

- Advertise the community-building aspects of the co-op model
  - Creating local jobs
  - Providing living wages
  - Democratic ownership
- Focus on attracting new members
  - Include existing members in advertisements
  - Put concept of membership and ownership at the forefront of advertising
- Highlight the value of co-op products and services
  - Find the balance between marketing the co-op model and marketing the actual products and services that the co-op provides

# Recommendations for the City of Austin

- Recommendations covered five categories: planning, funding, training, marketing, and other support.
- Each recommendation includes implementation steps, potential collaboration partners, and suggested performance metrics for monitoring implementation.
- The recommendations are based on emerging practices in other cities.
- Many require collaborative partnerships with other City departments, other government agencies, community organizations, co-op associations, organizations already providing training and technical assistance to co-ops, business organizations, and established co-ops.

# Recommendations - Planning

1: Establish goals, performance metrics, and a budget for support of co-ops by the City of Austin.

# Recommendations - Funding

- 1: Explore ways to utilize HUD CDBG funding to support co-ops.
- 2: Ensure that co-ops can access SBP small business loans.
- 3: Explore utilizing other sources of state and federal funding that the City of Austin receives to support co-ops.

# Recommendations - Training

- 1: Provide education on the co-op business model to all businesses accessing SBP services.
- 2: Provide access to education on sources and types of funding available to co-ops.
- 3: Provide co-ops access to available training and technical assistance opportunities.
- 4: Facilitate peer learning opportunities for co-op startups.



# Recommendations - Marketing

- 1: Market existing SBP general business skills training to co-op startups.
- 2: Promote the local, community-building aspects of the co-op model to the public.
- 3: Market business opportunities with the City of Austin to co-ops.
- 4: Declare official support for co-ops.

# Recommendations - Other Support

- 1: Consider the anchor institution model for supporting co-ops.
- 2: Provide locations for co-ops to operate.