

Neighboring Food Co-op Association // Food Co-op Policy Paper

“Membership for All” Programs at Our Neighboring Food Co-ops

Your local Food Co-op is more than a grocery store. In contrast to other forms of enterprise, co-operatives are collectively owned by their Members, the people who actively use the business to meet their shared needs and aspirations such as access to healthy food, building a stronger local economy, and providing good jobs. Co-operatives use the word “Member” (or “Member-Owner”) to describe this relationship because it is different than one of a sole proprietor (“owner”) or business partner, or the owner of shares in an investor-owned corporation. Members of Food Co-ops are not so much individual owners, as active participants in a community-based enterprise and contributors to its ongoing success.

Since its beginnings, the co-operative movement has been centered on building a more inclusive, democratic, and participatory economy. “**Membership for All**” programs are one way that food co-ops can work to ensure that Membership is accessible to everyone in the community who desires to participate, enabling the co-op to better serve their whole community and benefiting from the input and participation of more people. Specifically, these initiatives reduce obstacles to Membership for people who are economically marginalized. In this way, “Membership for All” programs are an extension of the co-operative legacy and values of self-help, self-responsibility, democracy, equality, equity, and solidarity.

Overall Considerations

If your Food Co-op is exploring a Membership for All program, we encourage you to consider a few ideas as you get started:

- ✓ Take some time to ensure that the benefits you are offering are **relevant to the needs of your community** and effective in supporting wider membership and participation.
- ✓ Use this opportunity to engage your community in the **Co-op Difference** — what makes our co-ops different being a business model built on self-help, solidarity, and economic democracy.
- ✓ **Keep it simple!** The goal is to develop a program that will invite broader participation and support the success of the co-op as a business and community asset.
- ✓ **Make it easy on the user end to participate.** Make sure information is clear and easy to understand, and don’t offer more options or choices than are useful or manageable.
- ✓ Ensure that **administration is as simple as possible**, so it is sustainable over time and doesn’t place too much of a financial burden on the co-op.
- ✓ Be mindful of **legal requirements and alignment with governance documents** such as your co-op’s articles of incorporation / organization, bylaws, and other policies.

Considerations Before You Launch Your Program

1. **Legal Requirements.** Before establishing a Membership for All program, Food Co-ops should review their bylaws to consider any necessary changes, as well as your articles of incorporation / organization to determine what co-operative statute they are incorporated under (e.g. Stock, Non-Stock). We recommend that you consult with your legal counsel regarding your specific situation. You can also contact NFCA staff for a referral.
2. **Compliance with Bylaws.** Food Co-ops seeking to establish a Membership for All program should review their bylaws carefully to ensure compliance or make any adjustments related to Membership Rights.



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3. **Administrative Costs.** Food Co-ops should carefully assess the costs and benefits of establishing Membership for All programs. Such initiatives can be an effective tool for Membership development, community engagement, and business success. At the same time, ensuring compliance with legal requirements will take time and effort, and ongoing administration can be costly if the program is too complicated.
4. **Terminology.** We recommend using the term “Fund” instead of terms such as “Loan”, “Grant” or “Scholarship” when describing a subsidized/sponsored membership program, as these other terms may cause confusion and reflect charity-based framework as opposed to a mutual aid/solidarity model, which is the goal for these programs at our Co-ops. As discussed below we also recommend using the terms “Member” or “Member-Owner” to help communicate the difference between co-operative enterprise and investor- or capital-owned businesses.



Membership

Membership is the foundation of the co-operative business model, and the terms “Member” and “Member-Owner” are traditionally used to help communicate the unique aspects co-ops as democratic, community-based enterprises focused on enabling people to work together to meet shared goals and aspirations. We recommend using these terms rather than “Owner,” “Shareholder,” or “Investor” which are more appropriate to other business models and may lead to confusion about the Member’s relationship with the co-operative, such as expectations related to financial return, personal gain, and individual influence over operations. “Member” language, on the other hand, emphasizes the individual’s belonging to a group or community, and their participation in a business that is designed to meet collective needs and achieve mutual objectives.¹

There are two basic legal forms of co-operative enterprise in terms of how Membership is defined:²

- a) In a “**Stock**” Co-operative, Membership is established through the one-time purchase of a Member Share which entitles a person to participation in the governance of the enterprise on the basis of one-Member, one-vote, and receive related benefits such as a discount on purchases or a portion of year end surplus (or profit) based on the member’s use of the business. These Member Shares provide capital to the business, which may be supplemented by additional, non-voting classes of stock (e.g. Class B Shares). Ownership of a Member Share is different from other forms of stock ownership in that it does not confer property rights. Shares do not appreciate in value, cannot be traded, and can be sold only back to the co-operative, meaning that “ownership” of the share is temporary and linked directly to active use of the business. Most of our Food Co-ops are incorporated as Stock Co-operatives.
- b) In a “**Non-Stock**” Co-operative, Membership is established through the payment of a one-time or annual Membership Payment (or fee) and is defined by active use of the products and services of the enterprise. In this sense, there is no individual ownership in the co-operative in the conventional sense, although in some co-ops, the payment is returned upon withdrawal of membership. Capitalization of the enterprise is supported by these Membership payment as well as Member loans and business operations.

¹ While Membership in a Stock Co-operative requires the purchase of a Member Share, individuals do not “own” the share in the conventional sense as the share is not transferable property (it cannot be traded or inherited) and can be redeemed or sold *only* back to the co-operative. Rather, the purchase of a share affords the individual certain right to use the services of the co-operative, to participate in governance, and to receive economic benefits such as discounts and/or a portion of year-end surplus, if realized. This is in contrast to capital-based business models in which control and rights to profit are based on capital ownership.

² For more information on co-operative legal statutes in your state, visit <http://nfca.coop/startup/#Incorporation>.

Membership for All

“Membership for All” programs are designed to ensure that a Food Co-op is more inclusive of its community, that more people have access to the benefits of Membership, and the Co-op benefits from their active participation. Specifically, these programs are intended to reduce financial obstacles to Membership in our Co-ops. It is important to note that such programs will be more effective when integrated with other efforts to ensure that the co-operative is welcoming, including Healthy Food Access initiatives, Equity and Inclusion efforts, product mix, and community engagement.

We recommend that Food Co-ops use the title “**Membership for All Program**” as an umbrella term for these programs, and “**Solidarity Fund**” for subsidized Membership initiatives so it is consistent and can be promoted across co-ops in our region (see more about terminology below).

These programs take two basic forms that can be complementary:

- 1) **Installment Programs** enable a prospective Member to purchase a Membership Share or pay a Membership payment in a series of payments over time toward the rather in one lump sum. This enables the Member to receive the benefits of Membership immediately while spreading smaller payments out over time. A variety of methods can be used for the payment installments, including periodic invoicing, regular payments made at the register, and the allocation of a Member’s year-end patronage rebates (in the case of a Stock Co-operative) to pay down the total cost of the Membership Share or payment.



- a) In the case of a **Stock Co-operative**, a Member can usually request repayment of the amount that they have paid in to date should they choose to rescind Membership in the Co-operative.
 - b) In the case of a **Non-Stock Co-operative**, a Member may able to request repayment of the amount that they have paid in to date should they choose to rescind Membership in the Co-operative.
- 2) **Subsidized or Solidarity Membership Programs** support the participation of individuals with limited resources in becoming Members of the Co-operative through the establishment of pooled funds for the purposes of funding Membership for people with limited incomes.
 - a) In a **Stock Co-operative**, Membership is established through the allocation to the prospective Member’s name the cost of a Member Share from a “Solidarity Fund,” an indivisible pool of revolving co-op equity. Resources for such a pool are provided by the Co-op from its own resources and/or through donations made by individuals or external organizations for this specific purpose. The number of Membership Shares that can be funded through such a program is limited by the total amount of equity available in the pool. We recommend *against* the establishment of different classes of Membership based on ability to pay as this undermines the unity and equality of Members. Rather, Solidarity Funds can be utilized to support the full and equal Membership and participation. Should a Member supported by such a program die or be otherwise unable to fulfill the requirements of Membership, or choose to rescind Membership, the value of their Member Share is reallocated to the pool.³ Note that your co-op should ensure that this is not inconsistent with any bylaws providing for the refund of a member share to an individual on withdrawal or death. Bylaws and the membership agreement should specify that in the case of a membership that is funded through the Solidarity Fund, a refund of the member share is waived or not permitted.

³ In the case of a “Solidarity Fund” participant, the individual has not technically paid for their share as it remains part of the indivisible equity of the Co-operative and is allocated to the Member’s name.

- b) In a **Non-Stock Co-operative**, one-time or annual Membership payments for individuals with limited incomes are also paid through a “Solidarity Fund”. Resources for such a pool are provided by the Co-op and/or through donations made by individuals or external organizations for this specific purpose. The number of one-time or annual Memberships that can be funded through such a program is limited by the total amount of funds available in the pool. In the case of an annual payment, the Co-op will need to determine how to budget for such support in an ongoing way.

Program Logistics

- 1) **Installment Programs.** For both Stock and Non-Stock Co-operatives, installment programs can be a useful tool for facilitating access to Membership. The key is to ensure that they actually achieve their desired purpose, are simple and easy to understand, and efficient in their administration over time.
- a) **Eligibility.** Food Co-ops should not make any requirements for eligibility and instead allow individuals to self-determine whether they want to make a single payment or request a payment plan.
- b) **Period of Installments.** Whether for the purchase of a Member Share or the payment of a one-time Membership payment, Food Co-ops should provide a single option on a number of installments that addresses affordability while being short enough and limited in frequency to reduce administrative costs.
- i) For **Stock Co-ops**, the purchase of a Member Share should be completed within 3-5 years, with payments being made annually or quarterly.
- ii) Similarly, for **Non-Stock Co-ops** with a one-time Membership payment should be completed within 3 years, with payments being made annually or quarterly. For Non-Stock Co-ops with an annual Membership payment, we do not recommend a payment plan, unless it is with automatic payments through a credit card or other means that enable efficient administration. Note that if the payment is considered a capital contribution according to the bylaws, this is not treated as income but as equity.
- c) **Method of Enrollment.** Information about the availability of payment plans should be included in member brochures or online membership portals. Requests for enrollment should be facilitated by a check box.
- d) **Accounting.** It is vital to ensure an accurate system of accounting so that installments are tracked and payments made on a regular basis to reach the full amount of the Membership Share so that administrative costs are managed effectively.
- i) For **Stock Co-ops** that use a patronage rebate system, the co-op should determine whether any rebates will be applied to a Member’s unpaid balance before being paid out.
- ii) Similarly, for **Non-Stock Co-ops** that use a patronage rebate system, the co-op should determine whether any rebates will be applied to a Member’s unpaid balance before being paid out.
- e) **Member Rights.** Installment Plans should be clear that full Membership Rights are afforded upon payment of the initial equity payment, and that such rights will be rescinded if the Member misses a payment.
- 2) **Solidarity Funds.** In principle, the cost of Membership in a food co-op should be generally affordable to the community while ensuring adequate capital for the success of the business. Economic inequality, however, is a persistent issue in our society, and food co-ops can and *should* be active participants in building a more inclusive model for business and more fair and equitable communities. Solidarity Funds build on the co-operative tradition of mutual aid by increasing access to participation through subsidized or sponsored Membership for people who are economically marginalized. In the process, our Co-ops also benefit from greater community participation.

- a) **Sources of Funds.** Food Co-ops can provide the option for individuals and/or organizations to donate directly to the Solidarity Fund by checking a box in all membership pamphlets or by providing an online option to “Donate a Membership.” A food co-op can also seed a Solidarity Fund from its own reserves or retained earnings as approved by the Board of Directors, or through a “Round Up” at the register program.
- i) **Stock Co-ops** can encourage members to allocate their share to the Solidarity Fund should they decide to rescind their membership (for example, when they move out of the community). Co-ops may also be able to use “stranded membership shares” (shares that have been abandoned by an inactive member), but it will be important to ensure that any such provisions comply with any unclaimed property laws that require funds to be paid to the state after some period of years. Note that in some states, an exception is made for consumer co-ops and you may be able to include in your bylaw’s provisions regarding unclaimed property. (Please consult with legal counsel for more information.)
- b) **Accounting.** It is very important to maintain a clear and easily maintained accounting system for Solidarity Funds.
- i) **Stock Co-ops** should include the “Solidarity Membership Fund” on the equity side of the Balance Sheet as a revolving fund with two items: “Solidarity Fund, Allocated” (indicating the portion of revolving fund that have been assigned to Members), and “Solidarity Fund, Unallocated” (indicating the amount of the revolving fund not currently allocated to Members). If your Co-op uses a patronage rebate system, it should determine whether any rebates will be applied to the purchase of a regular Member Share for the Member, in which case the same amount of Solidarity Funds allocated to their name would be transferred back into the Solidarity Fund pool.
- ii) **Non-Stock Co-ops** should set up a “Deferred Income: Solidarity Fund” line in their accounting to which donations to the Solidarity Fund would be initially allocated. These Funds would then be to a be allocated to “Income: Member Payments” as applications are approved.
- c) **Allocation of Funds.** In keeping with the value of self-help, we recommend that a Food Co-op charge a nominal and set portion of the cost of a full Membership Share or payment (for example, 10-25% of the cost of a member share or payment), with the balance covered by resources from pooled funds. You may also decide to allocate the full amount of a Membership Share from the pooled funds to the individual’s name for simplicity and ease of administration.
- d) **Member Rights.** Once an application is completed and approved, and any payment received, *all* Member rights and responsibilities should be afforded to the applicant.
- e) **Eligibility.** As with Healthy Food Access⁴ programs such as “Food for All,” we recommend that co-ops either (i) establish *no* requirements for eligibility, allowing individuals to self-determine their need, or (ii) base eligibility on an individual or household’s eligibility on more than one the following federal benefits (using just SNAP or just WIC is illegal because you are singling out individuals and treating them differently): SNAP (Supplemental Nutrition Assistance Program, or “3SquaresVT” in Vermont); WIC (Special Supplemental Nutrition Program for Women, Infants and Children); or SSI (Supplemental Security Income), or from a letter verifying need from a Community Partner Agency at the time of application. While a co-op must allow for multiple (not just one or two) federal programs for eligibility criteria, they can also choose other options, such as an additional benefit program. Applicants using federal benefits to show eligibility can provide evidence of enrollment in SNAP, WIC or SSI. Individual co-ops can determine what forms of verification are acceptable, as long as they are consistent and legal, and verification information from federal benefit programs is kept confidential and not stored by the co-op.



⁴ For more information, visit <http://nfca.coop/healthyfoodaccess/>

- f) **Documentation.** In the case of no eligibility requirements, no documentation is required. In the case of conditional eligibility, once the appropriate co-op staff member has verified an applicant's eligibility documentation (EBT card, Community Partner letter, etc.), they will check a box on the co-op's Membership for All application saying: "Membership for All Documentation was provided." The application form must not identify which type of eligibility was used.
- g) **Method of Enrollment.** Information about the availability of Solidarity Funds should be included in member brochures and/or accessible through online portals *without having to ask if available*. Promotion of the availability of funds would be done so without judgment nor assumption of need. It is important for this information to specify that allocation of Memberships is subject to the availability of funds.
- i) In **Stock Co-ops** and membership co-ops that repay membership payments on death or withdrawal, information must be clear that the Member will receive only the paid-in portion of their Membership Share should they rescind membership, with the remainder returned to the Solidarity Fund pool for the use by future members. In the case that a Food Co-op provides patronage rebates, you may want to emphasize that these resources can be used to purchase a regular share which would then be refundable to the Member.
- ii) In **Non-Stock Co-ops** that repay membership payments on death or withdrawal, information must be clear that the Member will receive only the paid-in portion of their Membership Share should they rescind membership, with the remainder returned to the Solidarity Fund pool for use by future members. In the case that a Food Co-op provides patronage rebates, you may want to emphasize that these resources can be used to purchase a regular share which would then be refundable to the Member.
- h) **Information Storage.** If a co-op chooses to use one of the above eligibility criteria, you must not photocopy or store documentation of a participant's enrollment in a federal program, including SNAP, WIC, or SSI. For example, EBT cards, SNAP verification letters, and WIC cards cannot be photocopied or stored. Storing this information is a violation of federal law.
- i) **Confidentiality.** It is important that participants' information is confidential and that participants have written notification of how their information will be used. Therefore, applications should state: *"Your information will be used for Co-op Membership (and the Food for All program--if they are simultaneously being enrolled in that program) only. We may contact you when it is time to renew participation in the co-op or Food for All Program and to share co-op information and deals. Your information is confidential and will not be sold to marketers."*
- j) **Transitioning to Regular Membership.** As mentioned above, **Stock Co-ops** may want to consider whether to include the option for a beneficiary of the Solidarity Fund to purchase their Member Share through patronage rebates or other means, in which case the funds allocated to their name would be transferred back into the Solidarity Fund pool, contributing to community wealth-building over time.



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