



# COOPERATIVE FARMING

FRAMEWORKS FOR  
FARMING TOGETHER

## A GREENHORNS GUIDEBOOK

by Faith Gilbert

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# INTRODUCTION

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## AUTHOR'S NOTE

I began this research motivated by a desire to farm with peers – to work together in managing land, sharing costs and equipment, and generally making our lives easier. Throughout this process I've found that desire echoed countless times, in many variations, by farmers across the country. It's clear that we face common challenges. It's also clear that by working together, we get more than just a solution to a problem: we get solidarity.

There is no one model for “cooperative farming.” You can form separate businesses or one business. You can share land, or farm as neighbors, or farm together in a community or a region. We need a whole range of models and solutions for working together. We are learning to design our own tools and methods to match our scale and soil. In the same way, we need the knowledge to design our own business structures and agreements, to fit our unique circumstances of person and place.

The intention of this guidebook is to introduce that knowledge. It was made possible by funding from Northeast Sustainable Agriculture Research and Education (NESARE) and through the generous support of all those that provided their time, expertise, and experience.

Information was gathered through interviews with 42 start-up and established collaborative farm projects across the continent, input from 18 professionals and advisors, and 50 publications in cooperative development, farm business, finance, land access and more.

My thanks also to the Greenhorns, who served as fiscal sponsor to this project and champion for my cooperative farming efforts. I am grateful to witness such a volume of groups self-organizing for mutual and community benefit, and to support this movement toward a cooperative, sustainable, and just economy.

In fellowship,  
*Faith Gilbert*

# WHAT IS A COOPERATIVE?

## WHAT IS "COOPERATIVE FARMING"?

### COOPERATIVE:



1. (adj) involving mutual assistance in working toward a common goal.
2. (n) a farm, business, or other organization that is owned and run jointly by its members, who share the profits or benefits.

### COOPERATIVE FARMING:



creating shared farming ventures to address common challenges and provide mutual benefit.

The word “cooperative” has two meanings: both a type of business and an attitude that can be broadly applied. A cooperative (n) is a specific type of business that is formed expressly to provide benefit to its members, such as:

- a producer co-op that is created to provide cost savings and or marketing services to a group of producers
- a worker cooperative created to provide stable, fair employment for its workers.

#### A COOPERATIVE BUSINESS IS DEFINED BY THREE MAJOR STANDARDS:

- It is **OWNED BY ITS MEMBERS**, those participating in the business, not by outside shareholders or investors.
- It is **GOVERNED BY ITS MEMBERS**. Each member of the business has a vote in major business decisions and in electing representatives or officers.
- It **EXISTS FOR MEMBER BENEFIT**, not profit for outside shareholders. Any profits are distributed equitably among members.

In addition, cooperatives operate according to internationally recognized core principles and values, which include operating as an autonomous organization, investing in the training and education of their members, and supporting other cooperatives and the community.

While cooperatives have an important role in farming, not all collaborative efforts meet those criteria. Buying a seed drill with neighboring farms, sharing a delivery van to a nearby city, or even running a farm together need not be classified or operated as a cooperative in order to provide fair and mutual benefit to those involved. *Cooperative farming* explores a variety of frameworks to work together as a group. Here, we focus on the agreements and processes that make collaboration function.

## WHY COOPERATE?

**ECONOMY OF SCALE:** Cooperation allows little farms to do what big farms can do, like buy inputs at bulk rates, increase volume to open new markets, and lower the per-use cost of equipment. Together, producers can lower costs, access needed services or facilities, or generate more income.

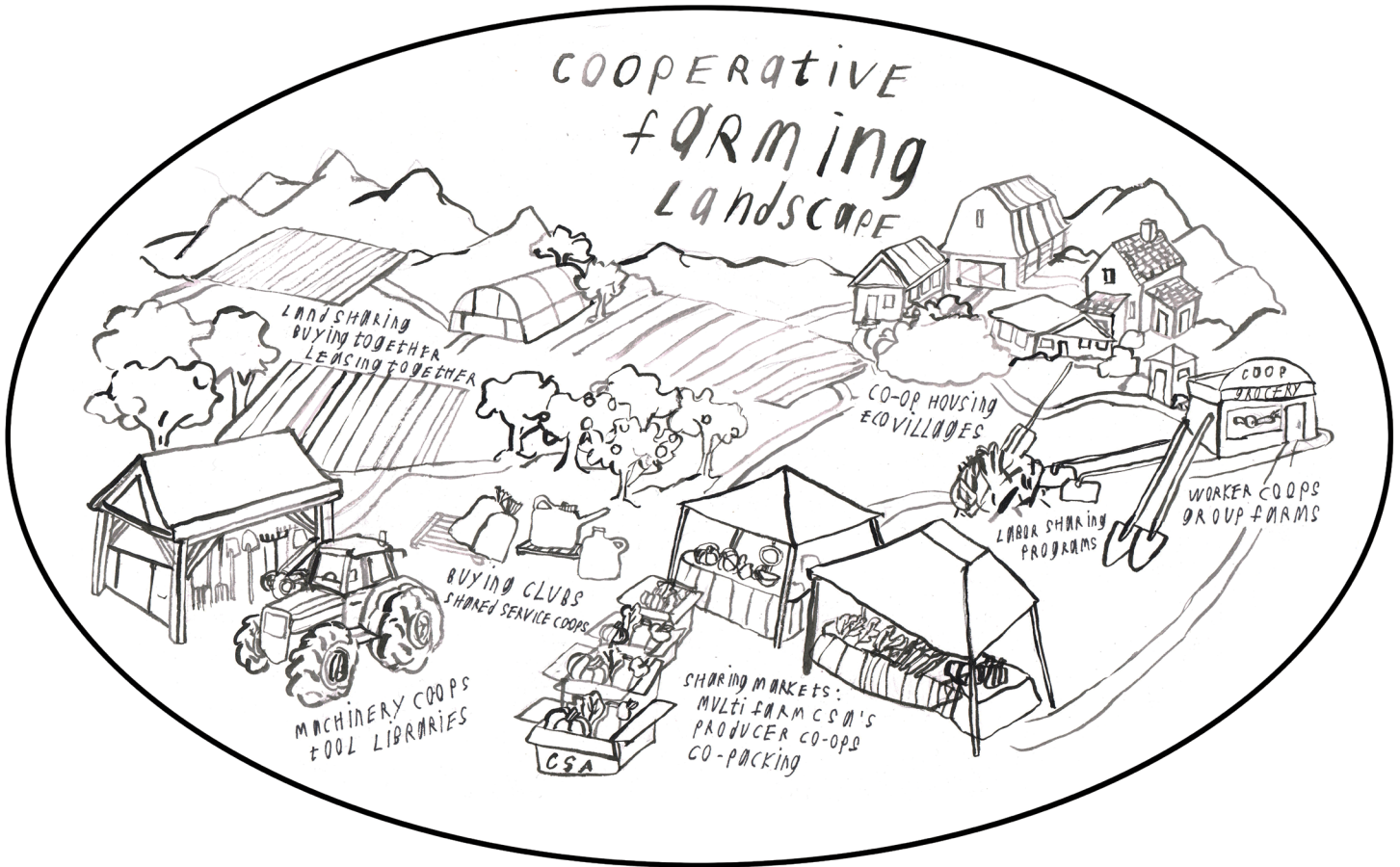
**PEOPLE POWER:** Allied producers can negotiate for better prices, diffuse risk, and share knowledge, skills, and labor.

**ACCESS TO CAPITAL:** Farmers can pool capital to invest in a shared business, tool or asset, and can increase their borrowing power with

combined collateral and experience.

**QUALITY OF LIFE:** Allied farmers can arrange for time off, child care, or extra hands when needed. Shared responsibilities, whether in selling, producing, or maintaining shared resources, means a lighter load for overworked operators.

**CONTINUITY:** Group entities can serve as longstanding vehicles to transition land, resources, and businesses among producers. Operating under an overarching entity, an individual farmer has more flexibility to retire or relocate and transition use to the next farmer.



## THE COOPERATIVE FARMING LANDSCAPE

There are collaborative enterprises corresponding to virtually every component of farming. The question to start with is, “How do I want to work with other people?” This guide addresses two main categories for working together. In the first, several separate businesses share access to resources and services, like marketing, equipment, and labor. In the second category, individuals work together to form one farm operation with multiple owners, such as a worker cooperative.

These categories are not necessarily exclusive of each other. For example, a group of farm businesses on shared land might have one shared enterprise, like a cheesemaker and a vegetable farmer in Maine that farm separately, but share ownership of a small dairy herd. On the other hand, some members of a cooperatively owned farm business might have side enterprises, like a collective vegetable farm where one member hosts a chicken business. It may make more sense to own and manage some things independently while combining efforts on others.



# CHAPTER 1

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## SHARING RESOURCES AND SERVICES

This section describes some common frameworks for sharing resources and services between separate businesses. These are general categories, but within each, they can be made very specific. For example, there are four cooperatives in the US dedicated solely to drying rice. On the other hand, group ventures can provide a platform to stack functions, like equipment-sharing groups in Canada that have evolved to share hired labor and buy bulk inputs. Groups envisioning a set of comprehensive services, however, should be careful to assess each service or resource separately. Each will have its own enterprise-specific capital needs, ongoing costs, and considerations for feasibility and management.

# I. MARKETING & DISTRIBUTION \*\*\*\*\*

There are many compelling reasons why joint marketing efforts, including producer co-ops, are well represented in agriculture. Large national co-ops like Sunkist Growers and Cabot Creamery Cooperative, and smaller regional co-ops like Our Family Farms and Deep Root Organic Cooperative demonstrate how commodity producers have succeeded in the marketplace by banding together to process, market and distribute their goods. Small and large farms alike can combine efforts to overcome barriers of scale, means, skill, time, language or culture. Marketing is a fairly specialized skill set that can be a huge relief to a producer to be able to outsource. Other benefits of shared marketing include:

- Sharing of distribution costs lowers the costs for each producer.
- Several producers can reach a sufficient sales volume to hire qualified salespeople.
- Allied sellers can negotiate more stable prices and consistent sales.
- Increased product volume, consistency, and reach can open new market outlets.
- Strong shared brand can bring marketing advantages.
- Cooperative value adding, like washing or processing, can bring higher prices.

**MARKETING COOPERATIVES** are businesses owned by the producers that use the business to sell their goods. The cooperative operates at cost, and distributes any surplus profits back to the members in proportion to the dollar value they've sold through the co-op.

**MULTI-FARM CSAs** can be groups of similar producers (i.e., vegetable farmers) that pool and distribute their products to a broader customer base, or groups of farms with entirely different products, seeking to provide consumers with many of their food needs. Some multi-farm CSAs are structured as cooperatives, such as Local Harvest in New Hampshire, a group of 8 growers producing vegetables for a 260 member CSA. A hired crop coordinator works with the growers, who bid and contract for the crops they'd like to provide. The growers are paid for their produce on arrival, minus a 20% commission to cover their operating expenses. Thanks to SARE funding, Local Harvest has put together *Local Harvest: A Multi-Farm CSA Handbook* laying out the details on bidding, incorporating, administration and more.

**JOINT SALES AGREEMENTS** can be created between two or more businesses to sell or market products for one another. An example would be vegetable farm that wants to diversify its offerings by selling meat and eggs from another farm. The parties would write a contract stating the terms of the agreement, such as if there's a fee or percentage taken by the host farm or seller, and the length of time the agreement will last.

**COPACKING AND PROCESSING** involve some value-adding, such as washing, freezing, canning, drying, and or cooking. These processes can be done on a small scale, or members can invest in the equipment and infrastructure to process significant quantities of produce efficiently. Grange CoPackers, a start-up cooperative in Essex, NY, has made this work by lobbying for their local grange hall to install a commercial kitchen with needed equipment like a flash freezer and steam kettle, to which they lease access.

## CONSIDERATIONS FOR SHARED MARKETING

### MARKETING STRATEGY:

Whether a marketing co-op, multi-farm CSA, or other marketing collaboration, the group's marketing strategy is the first consideration.

- Who makes up the group, and what products are they interested to sell?
- What available outlets might suit the volume you're intending to produce?
- What do the producers consider an acceptable sale price? What would the group have to sell it for to cover shared costs, and would the outlets considered accept that price?
- Are the producers interested to change their products or volume to pursue an available sales opportunity?

The desired **PRICE POINT, VOLUME, AND TYPE OF PRODUCT** can help determine the sales strategy. Many large-volume venues like schools and hospitals need products in standardized quality and packs. Producers looking to sell to these accounts would need to focus on crops that can be grown in sufficient quantity, quality and packaging. Direct to consumer sales like multi-farm CSAs or shared market stands can bring in higher prices, be more flexible on volume, and allow for greater diversity; however, they also require more time in outreach, customer support and distribution. The direct-to-consumer distributors we spoke to needed 20-30% of the sales value to cover their administration, staff, and facilities costs.

## FEASIBILITY AND BUSINESS PLANNING

- How much work will it take to aggregate, market and distribute your products?
- What equipment and facilities do you need, if any?
- What will the costs be?
- What revenue do you need to operate sustainably, covering your costs and anticipating reinvestment needs?
- What volume of sales are you anticipating, and what percentage would the group need to put toward sales and distribution costs?
- What upfront investment will you need? Where might the capital come from?

A marketing business, like a farm, needs to find the right combination of scale and price point so that it is covering its costs and generating some capital for reinvestment. Small joint marketing efforts will likely have little equipment and rely on volunteer labor from their members. A good rule of thumb for larger distribution businesses planning to purchase vehicles and warehouse space would be to plan for a half million or more in sales to sustain its costs, staff, and property, and a million in order to be profitable. Unless prepared to run on volunteer labor, a group will need to have an appropriate margin and volume of sales to cover the costs of paying administrative and support staff. Grant funding from the USDA may be available for completing a feasibility study or technical assistance during the planning phase. The National Sustainable Agriculture Coalition's *Guide to USDA Funding for Local and Regional Food Systems*,



found in the resources section, lists some of these grant-funding opportunities.

### STAFFING & ADMINISTRATION

The Local Economies Project 2013 Food Hub Initiative found that “high quality staffing is one of the greatest challenges that food hubs face, but also the greatest contributing factor to their success.” A marketing and distribution business needs effective, skilled management to be successful. Ideally the group has at least one employee paid to manage some of the administrative tasks, such as bookkeeping, logistics, promotion, customer relations, web maintenance, and coordinating with the producers. Depending on the scale, on-site staff may also be needed to help with loading, maintaining inventory, and checking off orders as they come and go.

### PRODUCER AGREEMENTS

A marketing co-op may face dissolution if its producers don’t regularly use its services and provide high-quality product to its customers, which is problematic for both revenue and customer satisfaction. Setting up written agreements with growers at the beginning of the season helps the seller to have a consistent supply, and gives the farmers an expectation of sales in return. It’s also a good opportunity to plan ahead and set expectations with producers, including:

**PRICING:** what price will be paid to the producer?

**QUANTITY:** how much will each producer supply, of what products, how often?

**QUALITY:** what are the standards for freshness, cleanliness, unit size and packaging?

**PAYMENT:** when will the producers be paid?

### COLLABORATIVE MARKETING WITHOUT POOLING PRODUCTS

Not all collaborative marketing efforts involve aggregating food and distributing revenues. Some farmers, like Little City Growers, run a group farmers’ market stand where they sell their produce side by side. Other groups work together to educate consumers on how to buy local produce – like a brochure mapping the farmers’ markets in the county. Farmers might together launch a CSA promotion campaign to try to pull in more members from the general public who aren’t yet familiar with the CSA concept.

## SHARED MARKETING TO MEET COMMON NEED



### SOLUTIONS FOR URBAN GROWERS

Little City Growers is a group of urban farmers in Providence, RI that includes farms from ¼ acre urban lots to two-acre farms on the edge of the city. On their own, the small farms have difficulty having consistent offerings that would allow them to keep customers. Together, they share a farmers market stand and restaurant accounts. They compile their offerings weekly in a google doc that’s sent to the chefs, who then receive their deliveries by bicycle and pickup truck. At the market, they track their separate produce with different colored rubber bands. They run entirely on volunteer work from their members to do the administrative work and deliveries.



### SOLUTIONS FOR COMMUNITIES IN NEED

Corbin Hill Food Project began with the intent to bring food from farms in upstate New York to residents in Harlem and the Bronx that had limited access to fresh food. The founders were dedicated to serving “vulnerables” in their community, including the young, the old, and those struggling physically or financially. Corbin Hill had to rethink the traditional CSA model in order to serve their target groups. For example, participants in their Farm Share program pay a week in advance, instead of in the spring, and can put their share on hold for a week if needed. These adaptations are important to make the CSA model workable for the diverse communities they serve; however, they provide added layers of logistical challenges that would be difficult for a small- or mid-size farm to take on alone. Non-profit distributors like Corbin Hill, sourcing from many small farms, can take on some of these logistical and financial barriers to food access.



## II. EQUIPMENT

In the Midwestern US and Canada, farms as far as a hundred miles apart share access to equipment for grain, hay, corn and soy. Seed farms in the Willamette Valley collaborate to jointly purchase expensive seed cleaning equipment, and many Texas cotton farmers share cotton gins. On the other end of the spectrum, tool libraries like the Atlanta Community Toolbank and Berkeley Tool Lending Library provide urban farmers and gardeners access to small-scale tools and equipment. Comprehensive equipment sharing among small-scale, diversified commercial farms is not yet common, but as new farms pop up in clusters near urban markets, the potential for tool sharing rises. North Carolina farmers have piloted the Sustainable Agriculture Tool Lending Library, in which ten small farms share access to implements that include a post pounder, manure spreader, disc harrow, and flatbed trailer. Small and Beginning Farmers of New Hampshire received USDA funds this year to set up two equipment banks with tools for small specialty growers, including pipe benders, honey extractors, and a walk-behind tractor.

The Intervale Center, an incubator farm in Burlington, VT, is an established example of equipment sharing among small, diversified farms. The Center and the on-site farms worked together to form an equipment business providing shared access to a greenhouse, tractors and implements. The equipment and greenhouses are owned by the Intervale Farmers Equipment Company (IFEC), of which the established farms and the Intervale Center are all members. The farmers pay hourly rental fees of \$30-40 for tractors, flat yearly fees for access to implements, and a per-bench fee for greenhouse space. The fees are based on projected cost and projected use for the year. Any profits or losses are allocated to the members based on ownership.

Sharing equipment can be organized through a variety of ownership structures and financial arrangements, from handshake deal among neighbors to setting up an equipment-sharing cooperative.

Organizing as a separate legal entity has liability protection advantages and can provide a better structure for investing in or replacing equipment. A separate legal entity can build up capital to hold for future purchases or expenses.

Regardless of the form (informal agreement, contract or legal entity), farmers sharing equipment should write down their agreement and

include:

- Each member's capital contribution and ownership
- How expenses will be allocated (hourly, by acreage, or unit)
- How depreciation will be calculated
- Operating policies on scheduling and safe operations
- Procedures for housing and maintaining the equipment
- Entry and exit: how members can transfer ownership

### CONSIDERATIONS

**SCHEDULING USE:** Scheduling is generally the first concern for producers considering shared equipment: "What if I can't use it when I need it?" By and large, the response from most farmers sharing machines is that because joint purchasing enables access to larger equipment, or equipment that would otherwise be unavailable, the time savings outweigh the hassle of scheduling in advance. For nearby farmers, a google calendar and 24 hours advance signup may be enough. Seasonal equipment like hay balers and combines are often scheduled at the beginning of the year. They can be rotated in order of proximity between different farms, starting with a different farm each year.

**SHARING COSTS:** Producers can divide the initial investment cost equally among them or in proportion to projected use. Ongoing costs include depreciation, insurance, housing, maintenance, and repair, and are usually divided by hourly use, acreage, or units. Iowa State's "Estimating Farm Machinery Costs" is great tool for those just starting out.

**OPERATING AND MAINTAINING EQUIPMENT:** Co-owners should set policies on what constitutes misuse, what repairs need to be paid for by the individual, and how the equipment should be returned. A logbook or other record should be kept for each piece of equipment noting usage, needed repairs, and maintenance performed. The group can assign and compensate one member to perform maintenance, or divide responsibility of various machines between the members.



# CUMA COOPERATIVES

*(Coopérative d'Utilisation de Matériel Agricole)*

Machinery cooperatives are common in Quebec and Ontario. A CUMA farm machinery cooperative owns equipment on behalf of its members, each of whom has one vote in the operation of the co-op regardless of how much capital they have invested. The co-op operates at cost, returning any surplus after expenses to the members in proportion to their use, or part is retained for future capital needs. Each member buys in to finance acquisition of equipment and pays ongoing membership fees to cover the cost of maintaining and paying off that equipment. The members can designate farmers within their group to perform administrative duties, or they can hire employees to perform tasks such as scheduling and maintenance. A CUMA cooperative can be open (members can join at any time) or closed (the membership is defined at formation, with periodic opportunities for member expansion). Most machinery co-ops are “closed” cooperatives.

CUMAs are structured to allow for sub-groups of members to share particular equipment. The cooperative is divided into activity branches or pools for each piece or set of equipment.

When a member joins, they sign a contract subscribing them to use a machine for a certain amount of time or acres per year. Members pay a percentage of the upfront purchase price and ongoing member fees. The member fees go toward financing the remaining cost of equipment, maintenance, insurance, repair, and storage.



## III. LABOR

Inter-farm labor sharing was once the backbone of many farm communities. Wendell Berry, speaking at the 2013 Young Farmers Conference, remembered how his neighbor used to say with pride, “I’ve worked on every farm on this road, and never earned a cent!” The tradition of sharing labor between farms has changed with increased mechanization and the loss of many farms and farm families, but lives on in new, adapted ways. One example of continued farmer-to-farmer labor sharing comes out of the equipment sharing programs in Canada and the Midwest, some of which not only share machines, but also share the labor of operating the equipment and bringing in the harvest. The members agree on the set value of labor, and a member’s contributions to other farms are tracked and accounted for along with their equipment use costs (an example of this accounting can be found in Iowa State Extension’s Equipment Joint Venture Worksheet, listed in the resources section).

Programs to share outside labor are more common. Many of the CUMA cooperatives have created labor-sharing pools, in which the cooperative jointly hires employees that are shared between multiple farms within an activity branch. This allows member farms to share the cost and administrative burden of hiring workers, especially for those farms that only need part-time help, and provides more stable work

and more hours to the employees. Participating members commit to hiring workers for a certain number of weeks per year. The North Carolina Growers Association hosts a similar program that hires H2A workers on behalf of their farmer members or clients. The farmer association takes on the often burdensome and complex process of filing to receive H2A workers and, if needed, helps with housing and transportation.

Joint apprentice programs are another new but proliferating example of sharing labor. The non-profit Island Grown piloted the Martha’s Vineyard Apprenticeship Program in 2010, which works as a hiring and support service for Martha’s Vineyard’s small farms. Island Grown recruited and vetted applicants that the farms could then choose from. Once hired, Island Grown found housing for the farms without worker housing (no small feat in summer on Martha’s Vineyard) and provided educational support.

Farmers in Oregon’s Rogue Valley created Rogue Farm Corps (RFC), an entry-level farmer training program that combines work on host farms with structured education. The program provides a double benefit of improving the education experience of farm interns and reducing the burden on host farmers to provide that experience. RFC was also

able to work with the state Department of Agriculture and Bureau of Labor and Industry to establish a legal framework for on-farm internships, in response to concern about labor regulations regarding internship positions.

### BENEFITS OF JOINT HIRING

- Centralized vetting and hiring of employees brings in a wider pool of applicants and improves the hiring options for each farm
- Farms can gain access to a stable supply of trained labor
- Farms can share the responsibility of housing, transporting, and training workers
- Labor regulations and paperwork can be handled at the cooperative level
- Allows more flexibility in sharing part-time and “spot” labor
- Larger pool of employers offers more stable work to the workers

### CONSIDERATIONS

**VIABILITY:** Most labor sharing programs made hired labor more accessible and saved significant administration time for each farm, but provided very limited per hour labor cost savings. Unless supported by outside funding, the farms would also need to account for the administration work of recruiting, vetting, and supporting workers. Are the participating farms prepared to pay standard wages for the skill level desired? How will administrative costs be covered?

**LABOR REGULATIONS:** Especially for apprentice and intern programs, the program should make sure it is complying with labor regulations as mandated by state and federal Department of Labor, and consult an insurance advisor about need for insurance and workers compensation.

**FARMER AND WORKER AGREEMENTS:** There should be clear agreements on what the authority, expectations and responsibilities are for workers, host farms, and the coordinating organization, including policies for maintaining worker safety and instruction. Having farms commit to hiring workers for a certain number of hours each week or season is important to supporting the finances of both workers and coordinating group. If two or more farms are sharing a part-time worker, there should be clear agreements about the scheduling process – how farms book workers in advance and whether or not they are committed to hiring them if the weather proves unworkable.

#### ADMINISTRATION:

Tasks include:

- Recruiting, interviewing, and hiring workers
- Coordinating with farms on their labor needs and arranging contracts
- Training workers, crew leaders, or host farmers, if applicable
- Coordinating housing and transportation, if applicable
- Payroll, filing paperwork, and complying with labor regulations
- Ongoing support and education, if applicable

## IV. SERVICE AND SUPPLY \*\*\*\*\*

Virtually any service or supply can be shared by a group of farmers. Many farmer groups form buying clubs, like a group of Hudson Valley farmers that order in non-GMO chicken feed for discounted bulk prices. The Massachusetts NOFA bulk orders offer a range of products, many of which are otherwise inaccessible to small growers due to high shipping costs. Each year, about 400 participants order supplies for organic vegetable farming and gardening through the NOFA bulk order, providing enough purchase power to obtain bulk discounts and pay an administrator for 300 hours of bookkeeping, coordinating and promoting.

**SHARED SERVICE COOPERATIVES** are based on a similar concept. The Iowa Farm Service began as a fuel supply co-op, but evolved with the needs of farmers to provide feed, fuel, farming expertise, and computer support. A few small farmers in the Connecticut River Valley jointly hire custom tractor operators to till their plots. Storage, custom hire work, and technical support services can all be shared among farms in the framework of shared service cooperatives.

Beyond agriculture-specific services, service cooperatives can be set up to share:

- Purchasing of health insurance or childcare services
- Education services, such as hiring consultants or hosting trainings
- Machine repair, renting shop space and hiring repairmen
- Lending or financial support, such as Farm Credit, Co-Bank, credit unions or revolving loan programs like the Carrot Project.

### FEASIBILITY AND BUSINESS PLANNING

Organizers will need to determine the feasibility of each supply or service provided. What are the costs and work involved in providing the intended services? Will you be able to provide equal or better service, cost savings, or other benefits compared to the current options?

### PARTICIPANTS

These types of collaboration can suit a broad audience, including those skeptical of collaboration. In general, groups would benefit from bringing in as many members as possible, to increase the group’s buying power and lower costs. Some **BUYING CLUBS** rely entirely on volunteer labor with great success, and others find that most members use the service as they would any other shopping experience (low participation in the direction and maintenance of the business). The amount of work members are willing to do may hinge in part on how much the good or service is needed. Understanding consumer “buy-in” is important to planning the staff needs and including those expectations in your feasibility study. After preliminary planning, running a pilot program and gathering feedback is a great first step.



## CHAPTER 2

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### GROUP-MANAGED AND COLLECTIVE FARMS

This chapter explores farm operations that are owned and managed as a group. As opposed to the inter-farm resource sharing described above, group-managed farms operate a business together, keeping one set of books, maintaining a single brand, and making decisions together about how to run their farm.

Some groups might prefer to instead form multiple businesses for the purpose of accomplishing specific shared goals, but not sharing ownership or operations totally. There could be one entity that owns shared equipment and infrastructure while farmers own independent enterprises. Or, there might be one shared enterprise, such as collectively owned vegetable operation, plus a few privately owned operations on the side. It makes sense to keep separate ownership of enterprises for which you have incompatible financial or management goals, or little incentive to share start-up costs and risk.

The advantages for individuals to cooperate in one business entity include:

- Less administrative burden - one business to market, one tax return, one blog to maintain, etc.
- Less management pressure – more brains in the business.
- More flexibility and shared risk – you can step in for each other if needed.
- Specialization—members can delegate and be responsible for different aspects of the business.
- Purchase power – sharing the upfront investment, with less redundant buying.
- Solidarity, fellowship, combined energy and drive – invaluable assets.

As an alternative to hiring employees, having a group of owners instead means having a team that's invested in the success of the farm and knows the business well. Owners have less incentive to move on than employees. Ownership brings benefits (such as equity) that make the hard work in start-up phase worthwhile if the business has little to pay in first-year wages. Also – owners don't have to be paid minimum wage or receive worker's compensation.

The challenges to managing a business together are that your relationships have to work, you have to be well organized, and you have to be willing to make decisions with other people. In the following chapter, we've laid out the components of structuring and maintaining a group business. Each of those components is especially critical for a group farm, where members are making a long-term investment and the risk is high.

**BELOW ARE SOME CASE STUDIES OF GROUP OWNED AND MANAGED FARMS.**

## WORKER COOPERATIVES \*\*\*\*\*

Worker cooperatives are businesses that are owned and governed by their workers. Decisions are made by consensus or majority vote, and each worker-owner has one vote regardless of their place in the organization or their equity share.

While some are characterized by a “flat” structure, in which all members participate equally, this isn't essential for a worker co-op. Many worker cooperatives are hierarchical, in that they have managers and employees, have tiered wages, or hire staff, seasonal workers, or outside managers that are not owners. In general, all workers that meet the membership criteria can become members, build equity, and participate in governing the organization.

### DIGGERS' MIRTH COLLECTIVE FARM

Diggers' Mirth Collective Farm, an organic vegetable farm in Burlington, VT, is collectively owned and operated by 5 owner-managers. Now 22 years into the business, their operation runs smoothly, but it took many years to get there. For the first decade, they were organized as a simple partnership, and staff came and went. After almost 15 years, they sought to incorporate and structured their operation to according to the principles of a worker cooperative. They filed articles of incorporation and wrote their bylaws a year later, creating written agreements about their operations for the first time.

Because some members work full time and some have other responsibilities, some work more hours and some less. However, members

make the same wage regardless of how long they've been with the collective and how many hours they work. Once expenses are paid and all checks are in the co-op's account, they add up the total profit and divide it according to each member's hours worked. The ownership stake of each member is based on his/her total hours worked since joining the business.

They make decisions by “informal consensus”: while they don't follow the formal process of consensus decision making, they seek agreement between all member-owners before moving forward. They have four meetings a year out of the field for long-range planning, and make smaller decisions as needed in the field. They work together on most tasks and projects, with some informal specialization of tasks based on member's preferences; for example, bookkeeping and seeding fall to the members that are best at them.

The worker cooperative model makes for a highly motivated group, says Hilary, a worker-owner: “A group of people that are invested and care seems more efficient than trying to communicate need to a group of people that aren't invested and rotate.” More people with a stake means more people who want the business to improve, and more people making sure loose ends are taken care of. Overall, running a farm collectively means less management stress for the Diggers' crew: “It's different, arriving at 7am knowing you're arriving with other people that know the program, rather than getting there an hour before ten other people and figuring out what to tell them.” The lessened stress and shared responsibility among worker-owners has meant having “more room in their lives.”

## MULTI-MEMBER LLCs

One way for a number of farmers to start a farm together is to join in forming a limited liability company (LLC). LLCs have very few legal requirements, and can be governed and managed nearly any way the owners agree on. This can be advantageous for groups not interested in forming a cooperative or needing more flexibility than state cooperative statutes allow. For example, some groups seeking to bring additional owners into an existing business may want other arrangements besides the “one-member, one-vote” and use-based profit sharing inherent in a cooperative. While cooperatives require a minimum number of members, LLCs can be formed with as few as one member.

LLC owners are also typically managers of the business. They may hire staff, who are not usually decision-makers or owners, though they certainly could be allowed to become so, within the structure of an LLC. Owner-managers of an LLC are not considered employees and therefore pay themselves for their work out of the profits of the business, rather than receive a salary. How the profits are divided and how much each member contributes upon joining the organization is up to the group to decide and write into their operating agreements.

### WINTER GREEN FARM LLC, OREGON

One couple bought Winter Green Farm in 1980, and ran it as sole proprietorship. After several years of growing their business and hiring on staff, they found two employees – another couple – that stayed on for several years. Having built a strong working relationship with this younger couple, the founders offered them the chance to buy into the business. The couple accepted, and so the four formed an LLC, struc-

tured with unequal ownership (equity) but equal decision-making “say-so.”

One of their hired staff came on with no farming experience, but quickly got hooked on farming. He met his wife – another staff member – on the farm, and the two ended up staying on for 19 and 14 years, respectively. Four years ago the third couple were invited to join as owners in the LLC. They were offered minor ownership but equal decision power, as with the last couple. As each new member came in, the prior owners gifted over some equity, in recognition of their hard work over the years.

Over the decades, Winter Green Farm’s value has substantially increased. The six owners together own 170 acres, with 25 in intensive crops and a hundred in pasture and hay. They’ve reinvested profits and increased pay to workers, which in the high season number 40 people. Both older couples are looking to retirement in the coming years, and so are revisiting the question of how they will handle the business’s assets.

They intend to create two LLCs, one to own the land and one to hold the business. The landowning LLC will then rent the land to the business LLC. This would make it easier for new owners to come in, without having to buy into the significant land value. It would also allow the older members to shift their value into the land and out of the business, so they can take a step back from management without continuing to have as many assets at stake.

In the meantime, they continue to manage a successful diversified farm together, making decisions by consensus. Using consensus, or “talking it out” is important to this group, that considers themselves a “non-blood family.”

## FARM COMMUNITIES

For some groups, farming cooperatively means living and working together on land. Ecovillages and intentional communities – types of communities that are designed around common goals or values – often include agricultural activities. These communities can be owned, operated, and governed in a wide variety of ways.

The majority of these communities are primarily residential, and either farm for their own needs and do not make income from farming, or host one or several privately owned commercial operations on site. Birdsfoot Farm in upstate New York, for example, is an intentional community in which all members own the land they live on, but host a farm business that’s owned by two of its members.

Other communities live and farm together, sharing responsibilities for both maintaining their living space and running the business that supplies some or all of their income. Tweefontein Herb Farm, in New York’s Hudson Valley, is a collective of five to seven people who live in a shared house on rented property, working together in an herb business that has been passed down from member to member over the past five years. The business responsibilities are split between the housemates.

The business income provides for their housing and food, and a stipend for other living expenses.

Cohousing communities provide a framework for those seeking to live on land together, but preferring to own separate house sites. Cohousing communities are often a mix of separately owned house sites and commonly owned land used for conservation or recreation. Many are built on former farm properties, and continue to host some sort of agriculture as either a non-commercial community project or as privately owned businesses. Cobb Hill Cohousing in Vermont is one example of a farm-centric cohousing community with a group of commercial farms. Several of the residents have started separate food and farm enterprises, including a dairy, cheese-making business, sheep herd, bees, and vegetable CSA that sell to each other, to residents, and to nearby towns.

Group housing, particularly building new residential communities, is outside the scope of this guide. However, intentional communities tend to form strong networks of information and support for fellow communitarians, some of which can be found in the resources section of this guide.

## ACORN/ SOUTHERN EXPOSURE SEED EXCHANGE

Acorn is a 30-member intentional community in Virginia that supports itself almost entirely through a collectively owned and operated seed business, Southern Exposure Seed Exchange.

Acorn is an income-sharing community, in which members have all of their living expenses covered in exchange for contributing 42 hours of “community valued labor” per week. Community labor includes a broad range of tasks, such as office work, garden work, mowing lawns, cleaning, cooking, childcare, and attending meetings. In exchange, members receive food, housing, transportation, health insurance, and a small allowance (and access to the Netflix account). The seed business generates the income to cover these expenses, though some people work most of their hours in the business and some very few.

The community is structured as a rare legal entity, a 501(d) non-profit corporation designed for use by monasteries and Shaker communities. To qualify as a 501(d), an organization must share income equally and support itself through a cottage industry. Acorn’s 501(d) owns the land and business. Members do not build equity, and are not required to buy in. They are asked to put aside their assets upon joining to avoid having non-egalitarian access to resources while there. Potential new members visit for 3 weeks, and existing members vote on whether to accept them.

Acorn operates by consensus. All members meet formally twice a week. One meeting is for business discussions, where members present proposals, make announcements, and solicit help for work projects. The second is a discussion meeting for topics that require more thought and time to reach an agreement. Only one topic is presented with no expectation of an outcome. If a proposal comes up in the business meetings that members can’t decide on quickly, it is moved to a discussion meeting.

Paul, a member of nine years, describes their organizing philosophy as “adhocracy”: Each member is responsible to look for what needs to get done and do the tasks that he/she enjoys doing and is efficient at doing. No roles are assigned: “People sense where they are needed and plug themselves in.” The community abides by the principle that the people affected by decisions should be the ones making them. Therefore, the people in charge of an area (i.e. garden, chickens) are able to make decisions regarding those areas. If an issue in their area affects others, they bring it up in a meeting with the group. In Paul’s experience, this philosophy has worked well. “If something is important, then someone steps up to take care of it. If no one steps up to do it, obviously we don’t care about it.”group.

# CONSIDERATIONS FOR FARMING TOGETHER ✨

## ON-FARM COMMUNICATION

Tourne-Sol Co-operative Farm is a worker cooperative that operates a CSA outside Montreal. The farm is owned and operated by five friends that met while studying agriculture. In the winter, they plan out virtually all the production tasks from seeding to harvest into a task binder with all weeks of the season. The tasks are based on last year’s records for when crops were trellised, covered, harvested, and otherwise cared for. During the season, the five and their apprentices meet daily, first thing in the morning on workdays or after lunch on harvest days. Their meeting area has a series of big scheduling blackboards, which one person fills in with tasks from the binder. Each person talks about what they did the day before and what challenges they had, if any. They try to avoid making business decisions in the day to day, right when they need to happen, but plan them 3 to 6 months in advance. Once a month, they hold a board meeting to address big issues, but keep decisions to a bare minimum in summer.

Group owned and operated farms like Tourne-Sol need good communication systems to stay in the loop as people work on different things. Chalkboards, daily or weekly meetings, and email can work well to keep everyone in the loop. They also need good record-keeping systems, since “you can’t manage what you don’t measure.” Good production and sales records will allow you to plan ahead for your labor needs, projected income and costs. Having hard data makes production and sales decisions easier and less personal. Those records can then

inform your pre-season planning, which is key to minimizing mid-season decisions and distributing tasks appropriately.

## DIVIDING ROLES

Delegating responsibilities and roles among members increases efficiency, by reducing the amount of discussion between the whole group. It also avoids redundancy or presenting conflicting messages to staff. Group farms will have the usual administrative tasks associated with sales and business management, such as accounting, dealing with customers, and marketing. They will also have management tasks associated with production, which could be a combination of decisions made by the whole group at set meeting times, by individuals, or by designated committees.

Roles could include:

- Additional administrative roles, such as production planning
- Managing the care and harvest of specific crops
- Managing areas of the farm, such as greenhouse, field, or livestock
- Overseeing activities, such as weed management, seeding schedules, or harvest
- Overseeing production for different accounts, such as CSA or farmers’ market
- Taking on specialized tasks, such as tractor work





**WINTER GREEN FARM** has a few hired managers, but most of the management tasks are divided between the six owners. Roles have evolved naturally over the years, with members dividing administrative roles, specific tasks, and management areas based on preference. In addition to the individual roles, they designate a general management team that meets yearly to make long-term financial and business decisions.

## WINTER GREEN FARM'S MANAGEMENT ROLES INCLUDE:



1. Cattle herd, capital expenditures, insurance, repairs, pesto marketing, tractor work, facility management, and member of the general management team.
2. Manages the greenhouse and co-manages production for CSA and farmers' market.
3. Cultivation, irrigation, market sales, weekly labor requirements, wholesale vendors, co-manages production for market and CSA production, and is on the general management team.
4. Harvest for farmers' market and farm stand sales.
5. Personnel, composting, biodynamic applications, wholesale burdock crop, pesto production, and is on the general management team.
6. Now works part-time, primarily as tech and financial support.



At the start, **TOURNE-SOL FARM** designated one person to do all crop planning, but that left the others feeling disengaged. They evolved their systems to distribute tasks more fairly across members. They meet yearly in the fall to revisit the past year, plan their next season, and redistribute tasks if necessary.

## TOURNE-SOL FARM'S MANAGEMENT ROLES:



1. Bookkeeping, soil fertility management; farmers' market harvest and market staffing
2. Managing the seed company and online store
3. CSA administration, CSA harvest and planning; dried peas
4. Pest management, greenhouse; weed management, organic certification
5. Machine maintenance and infrastructure management
6. Apprentice manager; webmaster

In addition, each person takes responsibility for planning and overseeing specific crops, such as hot peppers or salad greens, breaking down into 20% each of their total production. The crop overseer sends its seeding schedule to greenhouse coordinator who makes sure it gets seeded on time (although anyone can do the actual seeding). If direct seeding, the crop overseers do it themselves. A designated weed manager makes a priority list of what needs to get weeded, and then the weeding is done as a team.



# CHAPTER 3

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## STRUCTURING A GROUP ENTERPRISE

A group business needs the following to succeed:

- ✦ A clearly designed business structure that the members agree on
- ✦ Organized day-to-day operations and management
- ✦ Effective group process
- ✦ Well-planned business with realistic goals

Each piece is critical. If any one of these pieces isn't functional, it will be difficult to sustain the enterprise. This chapter moves through those four pieces as they relate to farm businesses – whether creating a group farm operation or sharing resources between separate businesses.

# OPERATING AGREEMENTS

Businesses are built on a set of agreements laid out at the time of formation (its bylaws, partnership agreement, or operating agreement, depending on the legal entity chosen). These agreements answer the question, “how will you work together?” These agreements, because they are legally binding, should be drafted or reviewed by a legal professional. However, business structures and agreements are flexible tools, whose primary purpose is to clarify working relationships to minimize misunderstanding and conflict. They should represent specific people and situations at a point in time, and be amended to reflect changes in those variables. In other words, the purpose isn’t to sign off on sample bylaws for legal purposes, but to understand the nature of the agreements so you can create something that works for you.

- How will the business be owned?
- How will the business be governed?
- What are the rights and responsibilities of each member of the business?
- How will profits and losses be distributed?
- How will members join and leave the business?

These are the central questions. It’s common to assume that choosing a legal entity will provide a format for operating your business. This is not the case – most business forms are fairly flexible in how they can be operated. In the next chapter, we’ve noted wherever there are noteworthy limitations on what you can do within a particular entity.

Rather than adapting your operations to fit within a particular legal structure, you should first think about how you want to operate your business. Form follows function.

The other reason to start with your business agreements is because it contains the stuff that hits close to home: shared ownership, responsibility, money matters, and rights. These are fertile grounds for divisive conflict if not stated clearly and agreed upon. In working through these structural questions, a group will build a better understanding of what’s important to each of you and whether or not your visions align after all.

# MEMBERSHIP

*“One thing I’m finding about contemporary, small-scale sustainable farming is that people are in it for a variety of reasons, and that farming makes up varying proportions of peoples’ income, allocation of work time, and emphasis as a livelihood. This, I believe, is one more thing that complicates cooperative farming.”*

–Davis Taylor, cooperative farmer

Defining membership in your group means clarifying how individuals will contribute and what rights they receive in return. Having membership agreements helps define expectations, so that you can hold group members accountable to contribute what they’ve agreed to. It also clarifies what it means to be “involved” in your group, and what benefits are entitled to those that participate. Many co-ops start out with confused ideas of membership – particularly if no one is yet getting paid. In general, members are those who are financially invested in the business, who will be responsible for its continuation and success.

## SOME QUESTIONS TO DEFINE MEMBERSHIP:

- What are the criteria to become a member?
- What is the process for new members to join?
- Is there a trial period? Do members need to contribute equity to join?
- What are the continuing obligations of membership? Is there a requirement for further financial contributions? A work or use requirement?
- What are the decision-making abilities of each member?
- What decisions, if any, must be made by the total membership?
- What is the authority of each member? Can any member sign

contracts or take out a loan? Can members make purchases without clearing them with the group?

- Are all members treated the same? Or are there classes of members?
- What are grounds for expulsion?

## WORKING WITH DIFFERENT TYPES OF MEMBERSHIP

A co-op grocery store might have two classes of ownership, one for consumers and one for workers. These two groups use the co-op in different ways and have different levels of involvement. The worker-owners might have additional meetings, have different decision-making rights than consumers, and different requirements to join and contribute, given that their level of involvement in the business is different than those purchasing from it. Membership classes are linked to different types of participation. If you have a broad group of stakeholders that will have widely varying levels of involvement or contribution, you might consider establishing different rights and requirements for each.

## A FEW EXAMPLES:

- Separate membership classes for consumers, workers in the business, producers, or other types of stakeholders.
- Provisional membership for new members, during which there’s some limitation on the kinds of decisions they can participate in until they become full members.
- Separate classes for owners and non-owners. In some organizations, there are members who own part of the community, land, or business,

and others that participate as residents or workers but are not owners. If the group wanted to offer some membership rights, they might be included as a separate membership class.

Adding membership classes can add significant complication, especially if the groups have divergent needs (such as consumers who seek the lowest price, and producers who seek the highest price customers will support). Most group ventures are formed to serve a particular group with a common need.

**MULTI-STAKEHOLDER COOPERATIVES** are types of cooperatives that are governed by representatives of multiple stakeholder groups, such as producers, workers, and consumers. Also known as “solidarity co-operatives,” they open meaningful dialogue and seek equitable profit sharing among different groups representing different needs.

Multi-stakeholder cooperatives related to food systems often include representation from different steps on the value chain. Fifth Season Co-op, a start-up business in Southern Wisconsin, has created 6 member classes from farm to table: producers, producer groups, processors, distributors, workers, and consumers. Multi-Stakeholder co-ops often differ from other co-ops in governance and distribution of surplus. Rather than “one member, one vote,” they instead allocate a certain number of seats on the board to each class of members, each of which has one vote. Some classes are given less representative seats than others: for example, consumer representation is generally lower than that of workers or producers, given that their participation is lower and they have less at stake. Profits aren’t necessarily allocated according to patronage, as with most co-ops, but decided on between the representatives. The challenge of reaching important agreements between different classes of members makes governing multi-stakeholder cooperatives more complex than other co-ops.

## GOVERNANCE

Governance is how you’ll set up the “government” of your business. It includes your decision-making methodology (such as majority vote) and how it is applied. It’s worth spending some time learning your options, discussing what’s important, setting up and testing your decision-making process. How decisions are made often becomes the main power point in a group, and therefore a potential source of structural conflict. Timely, effective decision-making is also important to sustaining your business and your relationships (unless you prefer to spend your time in meetings). A governance system for a group business needs to balance expediency with gathering input and building support for decisions among the group.

If your group is small, compatible, and works closely together, informal consensus and in-field discussions might be sufficient for most of your needs. However, it’s wise to consider a more structured process if your group has more than a few members, has members with divergent values or communication styles, or takes on a wide scope of projects and responsibilities. Both small and large groups would do well to set up a clear system for delegating decisions to individuals or small groups, and designate some structured time out of the field to hash out larger topics.

### QUESTIONS ON GOVERNANCE:

- Which method of decision-making will be used, in what circumstances?
- What things can be delegated to committees or individuals? How is this delegation done?
- What will your process to hold meetings be? How often?

### PARTICIPATORY METHODS OF DECISION-MAKING

*“A good rule of thumb is: the decision to use a certain decision-making process must be possible using that process.”*

-cultivate.coop

### CONSULTATIVE

The leader or manager has the ability to make decisions, but gathers input from all those that are affected by a decision. In situations where one person owns the business or property, the owner may wish to have final say in some or all decisions, but involve the ideas and experiences of those working with or for them. Even egalitarian groups may benefit by appointing one person to make decisions unilaterally at times (what color should the trash cans be?).

### CONSENT

Policy decisions are made with input from those they affect. Members or stakeholders must consent to the decisions made, meaning they have an opportunity to object and block the proposal from moving forward. Objections can only be made on the grounds that the proposed idea goes against the aim of the group, not on personal preference.

### MAJORITY AND SUPERMAJORITY VOTE

Members vote democratically on decisions. The group decides what constitutes enough of a majority to move forward with a decision, from a narrow majority (51%) to a near-total supermajority. Requiring less of a majority may allow you to make decisions more quickly, but you may have a harder time implementing decisions if a significant portion of the group didn’t support the idea. Some groups feel that decision by majority vote encourages competition between two sides of an argument, where supporters of either position try to win over members to their side.

### WEIGHTED VOTING

In some businesses, the voting power between members is not equal. For example, it may be weighted by ownership or level of involvement.

## FORMAL CONSENSUS

Members raise proposals that are then discussed, modified, and passed by the whole group. Members seek agreement between all decision-makers to move forward with a proposal. Many communities use consensus because it seeks a solution that is agreeable to everyone and leaves no one behind. Members are encouraged to listen to others and adapt their ideas, which can result in a much stronger proposal and one with strong community backing. However, consensus is the most vulnerable to poor behavior from one or a few members. A single group member may block a decision that's disagreeable to them, even if the rest of the group is in favor. In a true consensus process, a member should only block a decision if they have reason to believe a decision goes against the group's shared values or endangers the community. If your group plans to use consensus, group members should get trained in using it. Using consensus without understanding how it works can invite conflict and stall effective decision-making.

## INFORMAL CONSENSUS

Without the formal process of proposals, amendments, and rounds, groups practicing informal consensus seek informal agreement on how to move forward. Many small group farms practice informal consensus successfully. However, not having a structured process to affirm or reject ideas may mean that decisions are "fuzzy" – it's unclear whether or not the group is in support of an idea and there may be unvoiced concerns that result in foot-dragging in implementation.

## MODIFIED CONSENSUS

Includes one of several variants on consensus, usually limiting or specifying a member's ability to block decisions.

### EXAMPLES INCLUDE:

**CONSENSUS-MINUS-ONE:** A group needs all but one member to agree in order to move forward with a proposal.

**PRINCIPLED OBJECTION:** Limits a group member's ability to block a decision unless they have a "principled objection" to the outcome, where they believe that the decision goes against the group's core values or endangers the safety or wellbeing of the group.

**SUNSET CLAUSE:** Allows for a decision to be implemented for a certain time frame without reaching total consensus, so that group members that are on the fence can try out a decision without being bound to it. The group should set a time to revisit the decision at the end of the trial period.

## APPLYING YOUR PROCESS

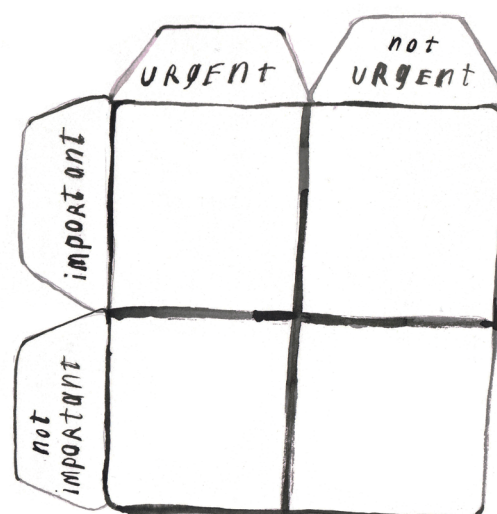
Your group will have major decisions, (taking on a new enterprise), minor decisions (making small purchases), decisions that must be made quickly day-to-day (discounting product that needs to move quickly), and decisions that can be made at a lower point in the week or season (changing a clause in your operating documents). You will likely need different processes for these different types of decisions. What sorts of decisions are made at the whole group level, in sub-group committees, or as

individuals? When and how are different types of decisions made?

In larger groups or groups governed by consensus, empowering smaller groups or individuals to make types of decisions will reduce the time spent in meetings and get things done more quickly. Developing trust and understanding of common goals will allow the group to delegate more tasks to individuals. In general, groups just starting out will have a much higher volume of large, long-term decisions that need to be made from scratch, requiring more communication and whole-group discussion, and a strong commitment to effective group process.

### AN EXERCISE:

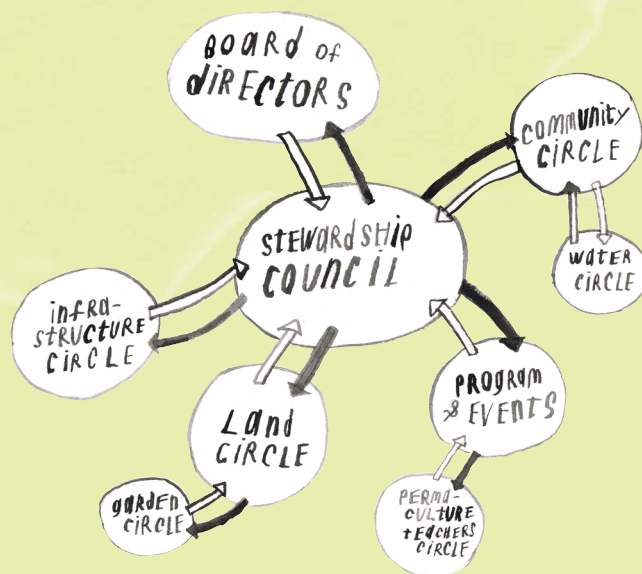
Consider Covey's 4-quadrant matrix of tasks: (I) Important & Urgent, (II) Important but Not Urgent, (III) Not important but Urgent, and (IV) Not Urgent & Not important. Fill in the quadrants with some examples of decisions that you'll encounter in your shared venture.



Consider the commonalities in the different groupings, and start to create a policy on how decisions are made. Are some decisions, like long-range planning, made by whole-group consensus, where delegated committees make others, like crop planning? Are there point people that are empowered to make needed decisions (major or minor) in different areas? How would you amend your agreements?

# SOCIOCRACY, OR DYNAMIC GOVERNANCE

Sociocracy is a system of governance based on values of equality, efficiency, effectiveness and transparency. Some groups that have struggled with consensus, or have been dissatisfied with majority rule, have benefited greatly from switching to a sociocratic method. Sociocracy is adaptable to different kinds of cooperative ventures and legal forms.



## SOCIOCRACY IS BASED ON THREE MAJOR PRINCIPLES:

**Governance by Consent:** Members working in an organization must consent to decisions and policy that affect them. A policy or action only takes place if there are no objections showing that the action goes against the aims of the group.

**Circle-archy:** The group organizes itself into work groups, or circles. Each circle has a defined realm of authority and purpose. Centering decision-making close to the activities it concerns and those who will be implementing decisions makes for fair, non-hierarchical, and efficient management. Circles are organized from the center out – with the center focused on longer-term policy and the outer circles increasingly focused on operational details.

**Double Linking:** Circles are interlinked by representatives. Circles closer to the center create outer circles by appointing one of their members as leader of the new group, who then assembles the circle team. The team elects another delegate back to the center circle. In other words, the two circles are “double linked.”

## SOCIOCRACY ALSO EMPLOYS CERTAIN PROCEDURES.

**Speaking in rounds:** discussions, proposal reviews, and the like go around in a circle so that each member has a chance to speak briefly.

**Elections and evaluations:** The group determines leadership for a circle or task by outlining the qualities needed, then choosing the best person for the task. Each person nominates a person and explains why they chose them. The group leader then chooses a person based on the group’s statements, and the group members are asked for consent on the choice.

**Time limits:** All proposals are given specific time frames. Knowing that a proposal will only be in place for the term – two weeks, or 3 years – allows the group to make decisions more quickly, knowing they are “good enough for now.”

# MANAGEMENT

How will your business be managed? If you incorporate your business (as a nonprofit, cooperative, or other type of corporation) you'll need to follow protocol for the structure you choose – typically electing officers and a board of directors. Regardless of your legal structure, it's highly beneficial to appoint point people to various important tasks so that the major business functions are accounted for. Make a list of all the functions of your business – the key is to cover all the bases.

## HOW WILL THE MAJOR FUNCTIONS OF THE BUSINESS BE HANDLED?

- Bookkeeping and preparing tax documentation

- Communicating with customers
- Record-keeping of production, sales, maintenance schedules, etc.
- Outreach, Marketing, Web Maintenance
- Business & preseason planning
- Day-to-day operational tasks
- Repairs, maintenance, and upkeep of infrastructure and equipment

Will you have managers, officers, point people?

How are these roles filled? Compensated?

What is the term, scope, and duties of those positions?

How often will the managers meet? What's the process for meeting?

# FINANCIAL AGREEMENTS

## WHAT ARE THE FINANCIAL CONSIDERATIONS FOR YOUR GROUP?

- How much capital is each person able to invest?
- What contributions of labor or capital is each person willing and able to commit?
- What are the financial needs of each of your members – if entering an income-generating venture, what do they absolutely need to make from the business?
- What are their financial goals for the business?

And lastly, what does each member consider a “fair” arrangement? Having the above questions answered among you can help your advisor understand your goals and how to reach them. The legal entity you choose may also have an impact on how you structure your finances. Cooperatives, non-profits, and most other types of corporations have requirements for how they are owned and how profits are distributed. Partnerships and LLCs are very flexible and you can arrange your business, how you like; however, most states have default agreements for LLCs and partnerships that apply unless you specify otherwise (and flexibility comes with added responsibility to create clear, sustainable agreements).

## OWNERSHIP

Unless you are planning a non-profit organization, having a group business means sharing ownership. Before all else in this process, you should ask yourself the question: do you want to share ownership of whatever you're planning? Are you prepared to cede some control and listen to the opinions of other group members? Likewise, are you prepared to be accountable to others in sharing risks and benefits? In some cases, it may serve everyone better to maintain private ownership and provide access in other ways if desired (land, equipment, and other resources can be leased, for example). Otherwise, you can proceed to determine a fundamental piece of your shared venture: how will we own it?

## ARE OWNERSHIP AND MEMBERSHIP RIGHTS CONNECTED?

Often in business there is a link between how much of the business a member owns and their decision-making ability or their share of profits. The default rules for an LLC, for example, assume that members will split profits according to the percentage of the business they own. In a cooperative, ownership is intentionally disconnected from both ability to make decisions and share of the profits. Each member has equal voting power regardless of how much of the business they own, and profits are distributed based on use, not ownership. Where you stand on this issue and whether or not this is practical for your situation will inform how you arrange your legal and financial agreements.

## WORKING WITH DIFFERENT LEVELS OF INVESTMENT

Some members of a group may have more to contribute. One member may have significant equity already in land or a business and is looking to bring in partners. There are a ways to work with disproportionate ownership and still operate on an even keel, including some of the options below.

**EXAMPLE:** A team of 4 farmers is creating a business in which 3 work full time, 1 part time. One has 70k to contribute, the others 10k each. They have chosen an LLC as their business form, meaning they have flexibility in determining their financial agreements.

### OPTION 1: OWNERSHIP DOES NOT DETERMINE THE RIGHTS OF THE MEMBERS.

As in a cooperative, those that own a greater percentage of the business have no additional rights. By contributing 70k and 10k respectively, one member now owns 70% of the farm and the others 10%. If a member moves on or the business disbands, they will receive their percentage of the sale value but no greater rights are attached.

**OPTION 2: PROVIDING CAPITAL AS A LOAN TO THE GROUP.**

The member with 70k puts up 60k of it as a loan to the group, and then all 4 buy in at 10k as equal partners. The lender can specify the term and interest rate of the loan.

**OPTION 3: SEPARATING OWNERSHIP OF MAJOR ASSETS.**

The member with 70k can use their capital to purchase land or equipment that is then rented to the group. The members can then buy in equally. Whatever concerns they have about use of the land or equipment can be worked into a careful lease agreement.

**ALLOCATING PROFITS AND LOSSES**

On what basis will you distribute profits and losses among the members?

A cooperative operates at cost and distributes profits and losses back to the members based on use. Any remaining costs or surplus are passed on to the owners in proportion to how much they've worked (worker cooperative), sold (marketing cooperative) or purchased (consumer cooperatives, service and supply).

In a non-profit, workers in the business are employees that receive a salary, and any profit or deficit that is generated stays in the business.

A co-owner of an LLC or partnership is not an employee and therefore does not receive a salary. The owner takes as income the gains of the business, thus profits and income are synonymous in these cases. A farm LLC with multiple owner-managers would divide the profits of the business as their income. How they divide that income is entirely up to them. Returning to our example of the four-member farm LLC:

**SCENARIO 1:** Members receive their % of profits and losses based on their ownership. After expenses, member A gets 70% of the profits; all other members get 10%. This is the default arrangement for a member-managed LLC unless the operating agreement specifies otherwise.

**SCENARIO 2:** Members receive their % of profits and losses based on their hourly commitment. The four plan out all their tasks for the season and assign themselves an hourly commitment. The full time members will work an average of 35 hours per week for 40 weeks, or 1400 hours over the season; the part-time member will work 20 hours for 20 weeks, or 800 hours. The 3 full time members each take 28% of the profits. The part time member takes 16%.

**SCENARIO 3:** A salary doesn't exist in a partnership or LLC, where there is no tax distinction between an individual's income and their business's income. However, there is such thing as a guaranteed payment - essentially an amount set aside to pay a member, regardless of whether or not the business made a profit, and regardless of share value. The LLC owners could guarantee a payment to each of the members (a stipend, or a salary equivalent). If the business makes a profit greater than all their guaranteed payments, the remaining profits are divided according to their agreement (by ownership, by hours, equally, or any other way the group chooses).

An LLC can structure profit sharing in any way it chooses, regardless of ownership or work contribution. For example, the two parents of a farm family wanted to transition ownership of the farm to their son. They set up an LLC to transition ownership, agreeing that the parents

still owned 60% of farm, while the son owned 40%, but the son would receive 90% of profits. Hanging on to the farm and being decision-makers in it was important to them, but they wanted their son to reap the rewards of his efforts. While the profit sharing has no relationship with ownership, they reached an agreement that worked for their particular needs.

**BUY-SELL AGREEMENTS**

It is essential to have an agreement upfront about how one or more members will leave the group, if necessary. Severing a business relationship can be painful on many levels, not least of which is untangling assets where there is no clear agreement on who is entitled to what. A buy-sell agreement includes a few key components:

- It provides the terms for the remaining members to buy out a departing member.
- It specifies what events – such as death, divorce, or disability, or expulsion – would trigger an automatic sale of a member's share.
- It sets the valuation method for how much each member's share is worth.

Valuation methods include:

**MARKET VALUE:** You could determine a member's share as their portion of the total market value of the business. The challenge is that the market value of the business is difficult to determine. The members either need to periodically review and agree on a value for their shares, or hire an appraiser. Hiring an outside appraiser is expensive (several thousand dollars, typically), so not the best first choice for reaching an agreement. If no agreed on value is in place when a member needs to leave, this can be a messy process.

**BOOK VALUE:** Ownership is tracked in individual capital accounts. These accounts increase with capital contributions to the business plus shares of profits allocated to each member. They decline with distributions taken and any business losses. The capital account balance is their "book value" equity in the business. This book value is not adjusted for appreciation or sweat equity. Some buy/sell agreements use book value since it is already calculated and not subject to dispute (unless they were not calculated accurately). If a group uses book value, then each member gets out what they have put in. It is also a disincentive to leave, since a member would have to walk away from some potential value. It also makes it more affordable to allow new members to join.

**VALUING BY FORMULA:** Note that the above arrangement doesn't account for the increasing value of the business itself, generated through sweat equity. To provide some return for the increased value of the business, a group could set a predetermined formula for valuing each member's contribution, such as a percentage return per year worked.

Much of the value generated by farm businesses is not easily liquidated. Soil fertility, property improvements, or reputation in the marketplace cannot be sold to pay out a departing member, unless the whole business or property is sold. Since many farm businesses aren't able to come up with large amounts of capital in any given year, it's advantageous to set a several-year window of time in which the departing member can be paid back. The remaining members sometimes pay interest on the amount owed.



# A PRIMER ON LEGAL ENTITIES \*\*\*\*\*

## WHAT IS A LEGAL ENTITY, AND DO WE NEED ONE?

A legal entity is how you define your business for tax and legal purposes. Setting up a legal entity, rather than operating as individuals, allows you greater access to some resources like business bank accounts, bank loans, or investor funds. Some business forms provide their owners a degree of legal protection from debts and lawsuits, in the form of limited liability. Having a legal entity to operate under also creates a stable vehicle for transitioning your business between members, if needed: you can create an entity that can bring in or transition out members as needed, without disbanding operations entirely if one or more members move on.

In some cases forming a legal entity is not strictly necessary, but it is almost always preferable in any case where shared operations or significant sharing of assets takes place. And while the task of creating a legal entity for your operation might seem like a bureaucratic hurdle, it is also an opportunity for you and your group to consider, agree on, and write down just how you will work together, giving you a better chance of success for the long-term.

## CHOOSING A LEGAL ENTITY: CRITERIA

### DOES THIS BUSINESS FORM LIMIT THE LIABILITY OF ITS MEMBERS?

Limited liability means that there is a legal and tax distinction between what your business does and owns, and what you do and own. Without limited liability, the members of the business are personally liable for whatever debts or claims the business is liable for. If the business is sued or incurs debts it can't repay, a lender or claimant can go after the personal assets (house, property, savings account, pickup truck) of one or more of the members to repay it. If you choose a business entity with limited liability, you are only liable for the amount of the business that you own. The limitation on liability that a business form provides is separate from liability insurance, which every farm business should have regardless of its form. Limited liability does not pay legal fees if you get sued – it's an “end-game” level of protection where if the business crumbles, your personal assets aren't at stake.

### TAX CONSIDERATIONS FOR THE BUSINESS AND ITS MEMBERS

In standard C Corporations, the business's profits are first taxed at the business or corporate level, then taxed again on the individual level once profits are distributed as dividends (known as double-taxation). Most of the business forms we are considering here are “pass-through” structures: profits pass through the business to the individual owners, where it is only taxed once on the individual's personal income tax return. Pass-through structures are simpler to account for and are generally advantageous tax-wise for small businesses – but if expecting significant profits, consult a financial advisor. Most partnerships and corporations have minimum tax fees that need to be paid annually, in the range of \$250–500, variable by state.

## STRUCTURAL REQUIREMENTS FOR MANAGEMENT, OWNERSHIP, OR DIVIDING PROFITS

Some business forms restrict how the business can be owned or how profits and losses can be allocated. We've noted these restrictions below.

## PROCESS TO FORM AND MAINTAIN

What documents must be filed to form and maintain this structure, how often, and at what cost? The answers to these questions vary state to state but can be found on the Secretary of State website for each.

## CHOOSING A LEGAL ENTITY: COMMON FORMS FOR GROUP VENTURES

The following business forms are ones recommended for group enterprises, intended to empower individuals to continue their own research and planning. This is not an exhaustive list; groups should seek their own legal counsel about what the best choice for their particular situation.

## CONTRACTUAL AGREEMENTS:

For temporary or trial ventures with low risk, a contractual agreement can be a good starting point. Contractual agreements are not legal entities; they are simply agreements between two or more individuals or businesses.

**JOINT VENTURES** are contractual agreements between multiple individuals or businesses to conduct a particular project or enterprise together for a limited time, and share profits and losses – like two farmers who wanted to raise feeder pigs for a season to see how well they worked together. To make and investment like a tractor, groups might sign a **JOINT PURCHASE AGREEMENT**, laying out ownership, how depreciation will be calculated, and what each party is responsible for. **JOINT MARKETING AGREEMENTS** are used to market together, and spell out terms like what each party is providing, how costs are shared, and who keeps a shared brand name if and when the agreement ends.

Because contractual agreements do not provide liability protection, they should be used for temporary, specific, and low-risk ventures (and consider getting a good insurance policy).

## SOLE PROPRIETORSHIPS

A sole proprietorship is a de facto business designation for a business owned by one person. It requires no registration other than registering the business name as a DBA (if you are using a name other than your own). If you were to create a shared enterprise, such as a marketing cooperative or an equipment business, you could each own your own businesses as sole proprietorships and also be members of that shared business. You could also operate separate sole proprietorships on shared land. Sole proprietorships create no distinction between the actions of the business and the owner. Any income from the business is simply reported on the owner's personal income tax return (in the case of a farm, the owner files a Schedule F, Profits and Losses from Farming). It does not offer

liability protection, so if the business incurred debts or fines greater than the assets of the business, the owner's personal assets (personal bank accounts, property, vehicles) could be seized to repay them.

## PARTNERSHIPS

If two or more people go into business and don't form another entity first, the state may assume they are operating as a general partnership. The state has boilerplate rules about how a general partnership is operated, such as provisioning that the profits of the business are split evenly between the owners. Unless you are comfortable with the general partnership rules the state provides, you and your partners should create and file a partnership agreement. One major limitation of partnerships is that they are tied to the life of the owner, so that the business disbands upon their death or departure from the business.

Partnerships lack liability protection, making them a risky choice. An LLC, described below, can accomplish many of the goals of a partnership but with the added benefit of limited liability.

**TAXATION:** While a partnership needs to file an informational annual tax return, any profits pass through the business untaxed and are taxed on the owner's individual tax returns. Partnerships should hire a tax advisor, as partnership tax returns are fairly complex (a cost of \$500–\$1,000 per year).

**FORMATION:** From a legal standpoint, two people operating a business together can be assumed to be in a partnership unless some other agreement is in place. It is highly recommended that partners create a partnership agreement. There are many sample partnership agreements online. Extension personnel, land grant university staff, farm credit institutions and other agricultural service agencies can also help you set up a partnership agreement.

## LIMITED LIABILITY COMPANIES (LLCS)

The LLC has become a highly popular business form for small business owners and farm operators. It offers the benefits of limited liability with the flexibility and simplicity of a partnership. How an LLC is owned and managed, how profits and losses are allocated, and how decisions are made within the organization are all determined by the owners (members) and written in the organization's operating agreement. This means that the members can adapt the organization's structure easily. Due to its flexibility, simplicity, and limited liability, an LLC is a good option for many collaborative farm businesses.

While LLCs have few legal requirements for management, from a practical business operation standpoint, all owners should have their responsibilities and titles clarified and any strategic meetings should be recorded and stored. These are good practices in general and are also important to show that the entity is being operated as a distinct business, which is great for liability protection.

**TAXATION:** LLCs are generally taxed as partnerships, in which profits pass through the business and are taxed on the members' individual tax returns. An LLC can also elect to be taxed as an S corp, a C corp, or a cooperative, if the business is structured to meet the state and

federal requirements to receive those tax designations. It is possible to change the tax designation of an LLC after it's formed, though there are a few hoops to jump through. The LLC itself will file a yearly informational tax return.

**RESTRICTIONS AND REQUIREMENTS:** An LLC can be operated pretty much in any way that the owners agree on.

**FORMATION:** The formation process is fairly straight forward, and may be done without professional help with some good background reading.

To form an LLC, a group would:

- Choose a business name ("Mead Valley Farm Collective, LLC") and check for availability of that name with the Secretary of State.
- File the Articles of Organization with the Secretary of State; pay a filing fee (usually \$50–\$100).
- File a Statement of Information with the Secretary of State within 90 days of filing the initial Articles of Organization using Form LLC-12, and pay a nominal filing fee.
- Creating an Operating Agreement.

The operating agreement sets the basic rules for how the LLC will operate. There are sample operating agreements available online and in many of the works in the resource list.

## COOPERATIVE CORPORATIONS

Groups seeking to operate by cooperative principles can organize as a cooperative corporation. According to the IRS, a cooperative is a business that is member-owned, member-controlled, and generates member benefit.

### 1. A COOPERATIVE IS OWNED BY THE MEMBERS, THE PEOPLE THAT USE THE BUSINESS.

- A producer cooperative is controlled by producers who use the business to process, sell, and/or distribute their goods.
- A worker cooperative is controlled by workers who use the cooperative to make their livelihood.
- A consumer cooperative is owned and controlled by the people that use the cooperative to source and purchase needed goods.

### 2. A COOPERATIVE IS DEMOCRATICALLY CONTROLLED BY ITS MEMBERS.

Cooperatives are governed by majority vote or consensus. Most cooperatives are governed as one-member, one vote, regardless of how much any member has invested. The members assemble regularly to vote on major decisions and elect a board of directors to oversee daily activities. Some also hire a manager or management team.

### 3. A COOPERATIVE GENERATES MEMBER BENEFIT.

Unlike most corporations, which are designed to bring financial gain to outside stakeholders, cooperatives are founded to provide a particular benefit to those who participate in the business, and must state this purpose in applying for cooperative status. Cooperatives operate at cost, and must distribute any surplus (net profits) back to its members. Each member receives their share of the profits, or patronage dividends, in proportion to how much they've used

# FORMING A COOPERATIVE

Adapted from co-op law.org

## STEPS BEFORE INCORPORATION

- Choose a business name (which includes “Cooperative” and an abbreviation that indicates that the co-op is a corporation, such as “Incorporated” or “Inc.”) check for availability of that name with the Secretary of State.
- Identify initial members and/or board of directors.
- Decide whether and how to issue membership shares.
- Prepare bylaws Develop membership agreement (“disclosure document”) and receipt. Given to individuals before they are accepted as members.)
- Determine which (if any) licenses, permits, and insurance must be procured.
- Prepare and file the Articles of Incorporation with the Secretary of State.
- File a Statement of Information with the Secretary of State within 90 days of filing the initial Articles of Incorporation.

## STEPS AFTER INCORPORATION

- Hold the first directors meeting –adopt bylaws, appoint officers, and discuss other business plans (Members may jointly govern the business by making every cooperative member a director).
- Obtain employment identification number (EIN) with IRS and employer account number with the state.
- Open bank account for the cooperative.
- Obtain licenses, permits, and insurance.
- Hire or retain accountant or bookkeeper to manage finances.
- Maintain up-to-date membership records (names & addresses).
- Implement an operational and management structure (designating committees or managers for the operation of the business).

the cooperative’s services. These patronage dividends can be paid out as cash or as additional equity in the cooperative, or some combination of both.

**RESTRICTIONS AND REQUIREMENTS:** Cooperatives, as a type of corporation, have required management practices, including formal processes for electing officers and directors, filling vacancies on the board, holding board and shareholder meetings, keeping meeting minutes, recording board resolutions, keeping records, and filing annual reports. They must also meet the requirements of the state’s cooperative statutes. The formal structure of a cooperative corporation means that the provisions that keep them dedicated to member benefit and democratic management cannot be changed, or written out of their bylaws by future members.

**TAXATION:** Profits that are distributed as patronage dividends are taxed once on each member’s individual tax returns. A certain percentage – usually up to 80% of profits – can be held in the business in the members’ internal accounts for future capital needs. If funds are held within the cooperatives capital reserves, they are taxed as corporate profits. The tax rules for cooperatives vary from state to state.

## ORGANIZING A COOPERATIVE AS AN LLC

For some groups, forming a cooperative corporation may not be possible, such as if the group doesn’t meet the minimum number of members required to form a cooperative. Or, the state the group operates in may not have cooperative statutes in place. In those cases, groups can form an LLC with an internal structure adhering to cooperative principles. Cooperatives organized as LLCs, as long as they operate by the one member-one vote rule and distribute profits back to members according to use, can still be designated and taxed as cooperatives by the IRS. However, only cooperative corporations can use the word “cooperative” in their name.

If your group has chosen to organize as a cooperative or as an LLC with cooperative principles, there are a number of support organizations and possibly grant funding to support your formation process.

## 501(C)3 NON-PROFITS

If your business is formed for charitable purposes, you can form a 501(c)(3) nonprofit to apply for and receive grant funding from government and funding institutions. Having a tax-exempt non-profit also means that individuals can make donations to your organization that they can deduct from their tax returns. Organizing as a non-profit also demonstrates your group’s commitment to a charitable or educational mission, which can build goodwill and support from your community. Non-profits do not pay income taxes on income generated from mission-related activities. However, it’s important to realize that a non-profit organization also comes with significant requirements and restrictions, and may not be the best structure for every group.

501(c)(3)s are only for businesses organized for charitable purposes (farming, in itself, is not a charitable purpose), and are vetted as such by the IRS. In other words, a farm cannot form a nonprofit simply because it is not profitable. Any business, including a nonprofit, will

need to generate enough revenue to cover its costs, and will have difficulty if its core activities rely on continual outside funds.

The significant difference between 501(c)(3)s and other types of corporations is that while corporations are owned by shareholders and distribute profits through dividends, a non-profit is owned by no one and does not distribute income. Members of a non-profit are employees, and can be paid a reasonable salary, but cannot take home additional profits generated by the business. If the organization disbands, its assets cannot be distributed among its founders or employees - they must be donated to another non-profit (making a 501(c)(3) a poor choice for owning land together, or starting a business with a significant amount of your own capital unless prepared to provide them as a donation).

Organizers should also give thought to how they will finance the start-up of their group. Any personal funds put towards starting the organization would be donations, as a non-profit has no owners and members cannot build equity. Most banks are hesitant to lend to a new non-profit with no financial track record, and few grants exist to start farms (although funding may be available to start an educational or charitable program on a farm).

A non-profit corporation must elect a board of directors to manage the organization, and officers to oversee daily activities. Directors must hold regular meetings and document the minutes of those meetings. There are some restrictions on who can act as a director, including persons who have conflicts of interest, business or personal relationships to one another. The IRS prefers to see a governing board that is “financially disinterested,” and familial or other personal relationships must be clearly disclosed and addressed. Non-profits must keep careful financial records, file tax returns, and may be required by funding organizations, state or federal government to provide yearly audited financial statements.

Many organizations resolve the above challenges by combining a for-profit farm business with non-profit programming. A farm owned by some or all of the members could lease access to a non-profit organization made up of the same members. Or, a farm could seek fiscal sponsorship from an existing non-profit for an educational or environmental program on the farm.

**TAXATION:** 501(c)(3)s are exempt from state and federal taxes. Members of a non-profit are employees that receive a salary, which is taxed on their individual income tax return. The non-profit must file yearly informational tax returns. Non-profits should have financial advisors to make sure they are complying with IRS requirements to maintain their 501(c)(3) status.

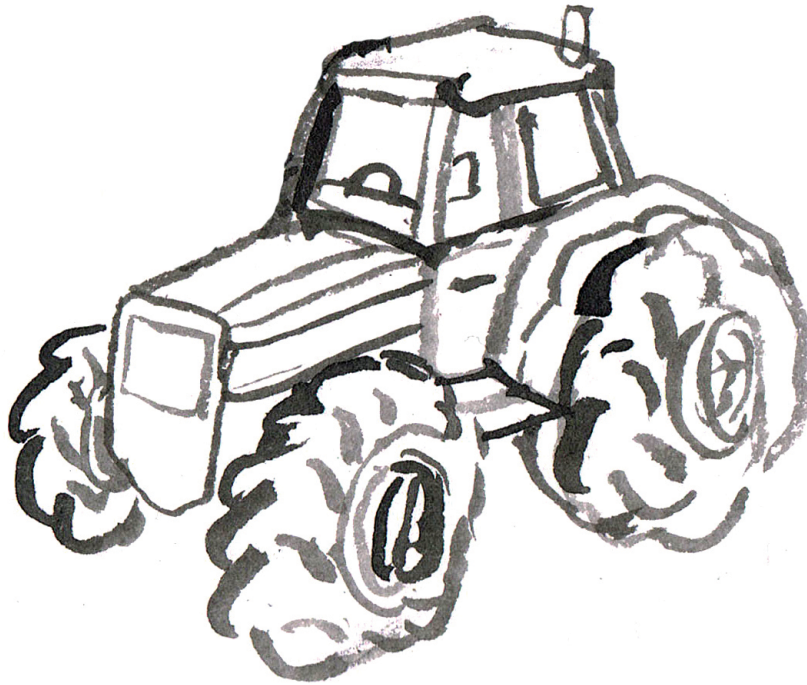
**FINANCIAL REQUIREMENTS:** There are restrictions on how non-profits may generate and distribute income. Most income must come from activities relating to its mission: meaning that if your group is organized around the mission to provide affordable food to families in need, you can generate significant income from selling CSA shares but not from cutting and selling firewood, for example. Salaries paid to directors and officers must be “reasonable,” which is defined generously enough that few farm businesses should have issues.

**FORMATION:** A forming non-profit files their articles of incorporation, creates and files their bylaws, and then files for tax-exempt status with both the state and federal government, separately. Most states then

require the organization to file annual reports, essentially re-registering its existence each year. The IRS filing process for a non-profit is complex, and may require assistance from legal and tax advisors.

## FISCAL SPONSORSHIP

If you are daunted by the paperwork, bookkeeping, and other bureaucratic requirements needed to start and maintain a non-profit, you may seek fiscal sponsorship as an alternative to forming a new organization. Fiscal sponsorship is the practice where an established non-profit lends its tax-exempt status to groups with compatible missions and activities, usually in exchange for a contractual agreement and fee. The sponsoring organization may also provide services like bookkeeping, payroll, preparing tax forms, or organizational support. The start-up project is then free to focus on building its organization, and can prepare to file for non-profit status in the future if desired. You could approach a nonprofit with a related mission, or you can seek out organizations created specifically to provide fiscal sponsorship to start-up non-profits.



# CHAPTER 4

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## MAKING IT WORK

While a clear business structure is an essential first step, the group will still need to plan for the practical realities of everyday operations. This chapter outlines the social and practical considerations for managing a group business.

# COMMUNICATION AND CONFLICT

One group of communication scholars defines conflict as “the interaction of interdependent people who perceive incompatible goals and interference from each other in achieving these goals.”<sup>1</sup> In other words, conflict happens when we are interdependent, meaning one person’s behaviors impact the others, and when we interpret that others are preventing us from reaching the goals we had in mind. Conflict is a natural and inevitable occurrence wherever people are sharing things and have less than total unity in their ideas.

Conflict happens as a natural part of working in a group of individuals with differences, however subtle, in their ideas and needs. Conflict also happens when people are hot, tired, overworked, or stressed – common states of being for many people running farms. While conflict can disrupt the group process or damage relationships, disagreements are also grounds for constructive changes in group members’ behaviors and ideas. A conflict of opinion requires all involved to consider other alternatives, often resulting in a compromise that’s stronger than any one person’s original idea. Conflict is also an opportunity to know each other better: it reveals what each cares strongly about, and can be a time when people are most honest about their needs and perceptions. The goal for a group trying to maintain a positive group process is to handle conflict so that it remains constructive rather than destructive.

Many communities, including the members of Tourne-Sol Farm, use Nonviolent Communication (NVC) in conflict situations, a method which trains participants to state their observations, needs, emotions, and requests in a form that’s free of judgment or manipulation. NVC is based on the principle that all people share universal needs, and that

conflict only arises out of differing strategies to meet those needs. NVC therefore includes a structured process for stating and receiving feedback that focuses on “I statements,” recognizing that our opinions and emotions stem from our own personal needs.

## CONFLICT AND DECISION-MAKING

Conflict often arises out of decision-making processes. In part, that’s because most communication in a working group naturally happens when things need to be decided. However, decision-making in itself seems to provide the conditions for conflict, in that making decisions can make people tense, emotionally heightened, or poised for disagreement. Groups that have refined their meeting and decision-making processes over the years typically make extra space for discussing large topics that hold a lot of value for people or require a lot of processing.

## STRUCTURAL CONFLICT

While some disagreements are inevitable, many are also structural, meaning they arise out of how a group operates and manages itself. Groups can prevent many conflicts of these types by putting thought and effort into their structure and agreements. While it would be impossible to anticipate all conflicts that will come up and plan to prevent them, it’s wise to start talking early on about what of those common problems your group might encounter and how you will meet them.

## MANAGING BEHAVIOR IN CONFLICT

### CONSTRUCTIVE APPROACHES

- Maintain cooperative orientation
- Recall similarities in goals or values
- Seek to maintain mutual trust and empathy
- Use open and honest communication
- Remain open to change or compromise

### DESTRUCTIVE APPROACHES

- Take competitive stance, “win/lose”
- Emphasize differences of participants
- Use hostile or misleading communication
- Remain inflexible on outcome

<sup>1</sup>Joseph P. Folger, Marshall Scott Poole, and Randall Stutman, “Conflict and Interaction,” in *Bridges Not Walls*, ed. John Stewart, 6th edition, (New York: McGraw-Hill, 1995), pp. 402-410.

## STEPS TO PREVENT STRUCTURAL CONFLICT

**CREATE A SHARED VISION:** Having a document stating what you are creating together and what you value in common can be a powerful tool for regaining solidarity in the face of disagreement. Tourne-Sol Farm found their training in Holistic Management, in which they created a holistic goal for their farm, to be very helpful in getting beyond details and focusing on their shared goals: “It reminds us what we want: it’s not growing more peppers, or making more on salad greens. Those are just tools to reach the larger goal.”

**CONSIDER YOUR STRUCTURE.** Are you setting up power imbalances? Do you have clear roles, clear rights and boundaries around who can decide what and take what actions?

**CREATE SOLID AGREEMENTS.** Have policies, standards, or agreements in place for things that can be points of contention. How are shared tools and spaces maintained? What is the standard for work hours, breaks, and days off? Consider the worst-case scenario, or where you may end up 5 years down the line. What points of tension can you head off now? Write them down and revise or add as needed.

**HAVE A PROCESS TO KEEP GROUP MEMBERS ACCOUNTABLE.** It helps to keep tasks organized: make it clear who’s going to do what and when. If accountability becomes an issue, you can institute a buddy system to remind each other of tasks or create a wall chart. Be clear with group members that make a habit of dropping tasks: have one or several group members explain how those actions negatively affect the group. It may be necessary to come up with a series of consequences, ending in revoking of certain membership rights, or at worst, expulsion from the group – but peer pressure is an effective first strategy.

**HAVE CLEAR EXPECTATIONS FOR THOSE SEEKING JOIN YOU.** Does their expectation of how much they’ll contribute of time or money match the rest of the group? Do they share the values of the group? Do they demonstrate emotional maturity and the ability to work well with others? Are they willing to accept the agreements your group has created thus far? While inclusivity may be an important value for your group, it doesn’t help anyone to bring in members that have incompatible

# COMMON SOURCES OF COMMUNITY CONFLICT

Excerpt adapted from *Creating a Life Together*, by Diana Leafe Christian.\*

1. **Vision and values differences.** Arguments over how money should be spent, or how time should be allocated, based on differing values or visions about the community.
2. **“Structural” power imbalances.** Resentment and blame arising from real or perceived power differences in terms of how decisions are made, and who makes them, or who has more influence than others in the group.
3. **Exhausting, divisive, or unproductive meetings.**
4. **Lack of crucial information.** Arguments about whose fault it is that the group is stopped in their tracks, or must raise unexpected funds, because we didn’t adequately research something earlier.
5. **Remembering verbal agreements differently.**
6. **No communication or behavioral agreements.** Misunderstandings and resentments because group members have widely divergent communication styles or behavioral norms. No common understandings on how we talk to each other or express disagreement.
7. **No processes for accountability.** Some members didn’t do what they said they’d do.
8. **No membership criteria or new-member screening process.** Resentment or mistrust arises because new people enter that don’t align with group values or meet financial and labor requirements.
9. **Being swamped with too many new members at once.** Disorientation, overwhelm, or loss because the shared history or values are threatened or damaged by an influx of more people than can be assimilated easily.
10. **High turnover.** Too high a number of members are coming and going for the group to establish itself.
11. **Differences in work and planning style.** Tension between those who want to make long-term plans before taking action, and those who want to leap in and get started.
12. **Work imbalances, or perceived work imbalances.**
13. **Financial Issues.** Arguments over who’s expected to pay for what, or tension over the relationship between financial contribution and the amount of influence in decision-making.
14. **Time-crunch issues.** Disagreements about the amount of time spent in meetings and on community tasks vs. personal time; conflicts over best times to schedule meetings or projects; arguments over how consistently members should contribute and if it’s OK to take breaks.
15. **Care and maintenance issues.** Conflict about standards for maintaining jointly owned tools or equipment, and who’s responsible.
16. **Cleanliness and order issues.** Tension over standards for cleanliness in shared areas.

\*Reprinted with permission for one-time use. Christian, Diana Leafe, *Creating a Life Together*, Gabriola Island, BC: New Society Publishers, 2003.

desires for the business or cannot meet the group's expectations to contribute.

**MAKE SPACE TO RECEIVE FEEDBACK.** Set a time, place, and process to communicate openly and honestly about challenges in the group, outside the pressure of the workday. Tweefontein Herb Farm and Southern Exposure Seed Company both set aside time to air grievances at weekly or monthly check-ins. Participants create a trusting environment for each other to raise concerns, and make an effort to listen to each other without reacting defensively or with hostility. Hearing and incorporating feedback is critical to maintaining cohesion in a group; if there is no space to request adjustments in behavior, it invites members to cut their losses and move on.

## CONFLICT RESOLUTION POLICIES

Most groups, whether bound together by simple contracts or by a legal entity, will include a clause on how conflicts will be resolved in their governing documents. In most cases, this is a simple statement that if two or more members cannot resolve a conflict between themselves, they will bring in an outside arbitrator. An arbitrator or arbiter is a legal professional that is called in to resolve disputes, whose decision in the matter is legally binding.

Some groups, such as Occidental Arts and Ecology Center, make an effort to keep conflict resolution within the community. First, the members in conflict make a good faith effort to resolve it. If not possible,

they ask in another group member to mediate, and finally, call to the whole community for assistance. You can also seek a mediator from outside the group. Many agricultural universities have mediation programs specifically for resolving conflict between farmers, often for free. You may also know of a community member with skills in mediation that would be willing to help.

## STARTING OUT

As with most challenges in working together, forming groups in their first few years can expect to weather more conflict than established groups. Daniel Brisebois of Tourne-Sol Co-operative Farm remembers, "There was a lot of yelling and crying in the first two years. Now, people don't take conflict as personally, because they know that a lot of the time, people are just tired or hot." Even starting with a group of close college friends, they had to learn to work together differently as business partners. "It took time to develop trust and confidence in each other – it takes time to let go."

Existing groups have evolved their communication systems and developed trust over time, but often start out micromanaging, spending excessive time in meetings, or having trouble adapting their ideas to the desires of the group. Many of those characteristics can be seen as an extension of the entrepreneurial, self-starting spirit that brings many people to farming in the first place. Take heart! It doesn't have to be perfect right away.

# MEETINGS & FACILITATION

To start a group-based project, you'll need to meet to create your organizing documents, set up structures for governance, make at least some basic policies on behavior or use of resources, plan your business and set long term goals. Once your group is up and running, you will need to have a system for ongoing communication (combined with clear delegation of roles and responsibilities) to resolve issues as they arise, carry out daily activities, and engage in ongoing planning and monitoring of your business.

While holding meetings might sound like a minor detail, good meeting process is critical to functioning as a group. Especially during formation, meetings can quickly become burdensome if they aren't well organized or the participants aren't able to stay to task. Setting up and sticking to good practices in meetings can greatly increase efficiency and morale.

## GOOD MEETING GUIDELINES

- Set a regular time to meet and have members plan their schedules around it. Create an agreement about members who don't make it – how do they participate in decisions, and how will you bring them up to speed?
- If any more than a few members, all groups should have a process to introduce and discuss ideas. Speaking in rounds, where each person can speak briefly, is a helpful method to balance more and less

vocal participants.

- Meetings should have agendas. Rotate or assign the task of creating an agenda beforehand, with enough information so that participants know what they'll be talking about. If going into a meeting without an agenda, spend a few minutes at the beginning creating one.
- Allocate a realistic time slot to each topic, so you can stick to it. If needed, cut down the topics to fit your meeting time.
- Meetings should have facilitators. Having one or more members trained in meeting facilitation would be a very good investment. Rotate the roles of agenda planner and facilitator. The more each group member understands these roles, the better your meetings will go.
- Keep a meeting log. Save the last 15 minutes to record what was agreed upon, what the questions are on the issues where no decision was reached, and what the next steps you all will take to move the process forward.
- Minimize what the whole group takes on. Keep whole-group discussions to what's really necessary to receive feedback on, and delegate individuals or small groups to work on ideas in the interim.
- Allow extra space for big ideas. Southern Exposure Seed Company meets twice weekly, once to make decisions efficiently, and once to simply discuss larger topics, with no expectation of an outcome. The four co-owners of Sleeping Frog Farm shelve topics that start to eat up meeting time, and set up a special meeting to talk them out.



# FACILITATOR'S ROLES

from cultivate.coop

## SUMMARIZER & INTEGRATOR

- State the sense of the group as best you can discern it
- Reflect back what you are hearing verbally and/or visually
- Weave together diverse input
- List out sub-topics so each can be examined
- State clearly any agreements for the record

## VIBES WATCHER

- Awareness of emotional undercurrents, gleaned from tones, body language, intuition
- Ask deeper questions
- Call for breaks

## PROCESS STEWARD

- Help group follow any process agreements or ground rules that are in place
- Consider formats other than the default large-group discussion
- Focus and safeguard the process so that others can mainly focus on the content

## PEACEMAKER

- If a conflict emerges, help each person feel heard, and seek common ground
- Help people understand each other by translating information from a participant into terms that the other participants can also grasp

## SCRIBE

- Write information up front large enough for everyone in the room to read it
- Ensure someone is taking minutes for the record

## TIMEKEEPER

- Keep an eye on the clock
- Warn the group well ahead of any deadlines
- Note again as the deadline draws near

## PHYSICAL PREPARATION

- Seating
- Lighting
- Airflow and heating/cooling
- Supplies: markers, tape, easel, flip chart, chime

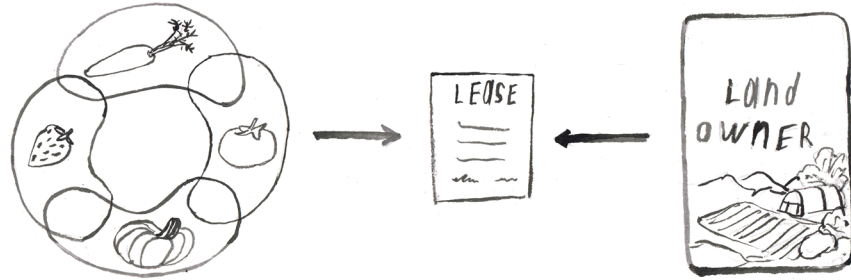
# FEASIBILITY, PLANNING, AND FINANCING

Whatever it is you're hoping to do, be it small and simple or broad in scope – a good idea is only as good as its implementation. A beautifully conceptualized collective vision will not succeed if it doesn't consider organizational and financial realities. Having realistic financial expectations for your venture – and making them clear – is all the more important when multiple people are risking their assets or depending on it for their livelihoods.

A feasibility study is a recommended first step. A feasibility study essentially asks the question, "is this business idea viable?" considering the market conditions, capital needs, ongoing costs, and other factors. A feasibility study is sometimes required if receiving start-up funding from the USDA or other organizations. Required or not, looking at the necessary components for success can provide important feedback about your idea. Perhaps it needs to be scaled up to succeed, or pared down to fewer functions, given the resources available and ongoing capital needs? Perhaps the structure you've focused on isn't the only one possible, and others might work better for your situation? You can find a feasibility study outline in the resources section.

If you've determined that the venture is feasible, you can move on to business planning, which outlines how you will take your vision from idea to reality. There are many resources to support farmers in creating and updating business plans. Beyond the written resources listed in the resources section, you can look for support organizations, such as farm service agencies, non-profit organizations, and cooperative development groups for professional help determining the feasibility of your group's vision. Your extension office may be able to point you to business planning grants.

Group businesses may have more difficulty obtaining traditional financing than individuals or spouses; however, this shouldn't be an issue if groups form an entity and establish a financial track record for that entity. Farm lenders like Farm Credit commonly lend to cooperatives and will consider a group enterprise along the same criteria as any loan application (in other words, the group will need sufficient collateral and a realistic expectation they will generate the income to pay the loan back). Cooperative lenders such as Cooperative Fund of New England specialize in provide financing to cooperative groups. Of course, a bank loan is not the only solution for starting or growing your enterprise. UVM's *Guide to Financing the Community Supported Farm* contains in-depth details on many forms of alternative financing, including loans from group members or supporters, crowd sourcing, and types of community investment.



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# CHAPTER 5

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## COOPERATIVE FARMLAND HOLDING

By Kathy Ruhf, *Land For Good*

Not all groups of farmers who want to “farm together” do so on shared land. Farmers could, for example, each have their own farm property and share labor or equipment, or market cooperatively. But sharing farmland, farm infrastructure and sometimes housing—the real estate components of a farm operation—is a core component for many cooperating farmers.

As with all the other aspects of group farming, decision-making, communication, control and authority are the most important considerations for group landholding. Some of these aspects will be addressed in the specific structure and agreement language you create, but good communication can't be pinned down in a document. Farmers who farm and hold land together need especially good communication skills, along with the ability to build trust, negotiate differences and manage conflict. Creating a shared vision for a farm property can be a powerful tool to create solidarity and an essential reference in difficult times.

## BENEFITS AND CHALLENGES TO COOPERATIVE LANDHOLDING

Tenure means “to hold.” Basically, you can hold land by owning it or renting it. These two options will be discussed below. The advantages to shared land tenure can be financial (affordability, leveraging more equity), strategic (shared risk) and psychological (broadened commitment and process).

- Depending on the land acquisition model, shared land tenure could be more affordable. Sharing land may provide a feasible way to enter farming where options are limited.
- Multiple farmers on a large farm property can be a great way to make good use of a former dairy or other large farm whose former use may no longer be viable.
- Farmers who share land may feel a deeper level of commitment to their common endeavor. Whether leasing or owning, the ties that bind farmers to the land and each other are not easily walked away from. This shared commitment can be a great strength.
- Shared ownership gives the farmer owners the opportunity to build equity, depending on the specifics in the ownership agreement.
- The legal agreements spelling out the terms of shared ownership or tenancy can be complex. Shared agreements may require more “process.” However, formal structures are essential to address key considerations such as how a farmer enters and exits the group.
- There is potential for increased liability from working together. If someone does something wrong, the whole group could be vulnerable. Having a formal structure that addresses liability for each individual is the best strategy to mitigate exposure for individuals in the group. An LLC is a good structure for this purpose.

## LAND USE

What are the stewardship goals, and what practices will the farmers employ? Groups could include land management policies in a shared lease, in the operating documents for a shared entity, or in a contractual agreement between separate parties.

### POLICIES COULD INCLUDE:

- Acceptable or desired crop and animal management practices, such as cover cropping or grazing requirements
- Allowed and prohibited uses and inputs
- Use and maintenance of access roads, field edges, and other ancillary parts of the property
- Trash, recycling, parking, equipment and vehicle storage

Some good sample policies for stewardship can be found on the National Incubator Farm Training Initiative (NIFTI) wiki, which hosts site management protocol for several incubator farms. *Holding Ground: A Guide to Northeast Farmland Tenure and Stewardship*, available at [www.smallfarm.org](http://www.smallfarm.org), has a chapter devoted to stewardship principles and policies.

Who will farm what part of the shared property? How will crop rotation be addressed on shared land? A land assessment is a good first step to understand the carrying capacity of your land and what areas are suitable for what enterprises. A solid land plan can also help prioritize improvements and plan for efficiency. Extension personnel, hired land planners, and the USDA Natural Resources Conservation Service's soil mapping database are good resources, in addition to your own observations and judgment.

Special attention should be given the land's limiting factors. A shortage of tillable land or water or limited access to needed utilities and infrastructure might make good starting places to plan shared use. The biggest challenge might be anticipating how each enterprise will change or grow. Groups planning to farm as separate businesses should have business plans that address projected growth that each business can share with the others. While plans are likely to change, it's important to have some understanding of what your needs will be several years ahead. Holistic Management International offers trainings and materials on land planning, noted in the resource section.

## LEGAL AND SOCIAL CONSIDERATIONS

Whatever the arrangement, the documents that consummate and sustain the land tenure have to be clearly written. If not drafted by an attorney, they should be reviewed by one. It's better to err on the side of too much detail than not enough.

- **FINANCIAL AGREEMENTS.** Whether leased or owned, initial and on-going costs need to be thoroughly researched and spelled out for everyone. How are investments and improvements in the property handled?
- **IDENTITY AND BRANDING.** The public may see the property as one farm, where each of you wants to promote your own business. So, how the businesses relate to the property in your public relations and marketing is an important consideration.
- **ENTRY AND EXIT.** How do farmers join and leave the landholding arrangement? What are causes and process for termination? How are new farmers chosen? Can ownership or lease rights be assigned or transferred?
- **LIABILITY** is always a major concern for farmland owners—and for landlords. Ask a legal or insurance advisor about how the group should set up liability insurance and minimize risk.

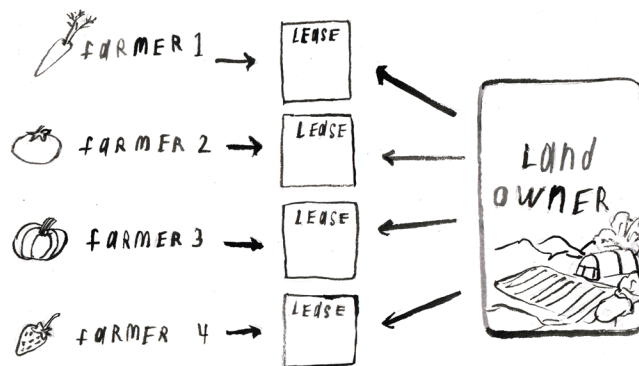
## TENURE OPTIONS

As mentioned above, there are two tenure options: to own or to rent. Within each of these main forks in the road there are several variations. Each has advantages. The best model depends on many factors including the goals and desires of the farming group, what is being leased or purchased, financial feasibility, and logistics. Farmers can co-hold “plain” land, land with farm improvements such as barns, sheds and fencing,

a farm that includes housing, or only farmer housing without—or separate from—farmland. A group could purchase farm or residential structures on rented land (see below on ground leases). Regardless of the model you pursue, there are some basic things to consider.

- Be clear on who is in the land holding group. Are all the farmers in it or some of them? Are non-farmers involved? Do non-farmer landholders have a say—or an equal say—in how the land is used? What might be the power relationship between farmers who have a stake in the land and those who don't?
- What are the legal and financial consequences of a chosen landholding approach? For example, how easy is it to get out of a particular landholding structure if things don't go well? What might it cost a farmer to exit? Are all the farmers in the group equally prepared to have their names on the title? Be sure to thoroughly investigate the tax implications of the model you choose.
- How will lenders regard your tenure choice? For example, will a lender lend to you for infrastructure if you have a short-term lease? Depending on the arrangement, financing can sometimes be more expensive to obtain if leasing than owning the ground you're building on.
- What are your—and your group's—beliefs about the placement of equity? Some people see investing in real estate as an excellent method to grow equity. Others prefer—or need to—invest in other capital assets. If you rent property, your net return to family living is likely to be substantially higher than if you are paying a mortgage and related ownership costs. In that case, you can invest those higher net returns in a retirement account or other investment vehicle.

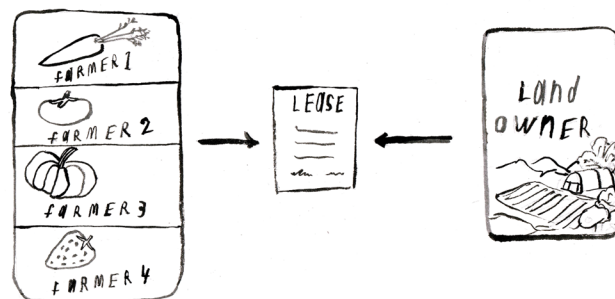
leasehold. For example, the landlord could agree (in writing) that if one farmer terminates, the other farmers have a say (along with the landlord) in what happens with that vacated parcel, or who gets to lease it next.



It would make good sense, particularly in relating to the landlord, to have a standard lease template. Establishing leasehold boundaries, with attention to any shared spaces and use of common ways, is critical. Good leases make good neighbors. Lastly, how will communication with the landlord be handled? You don't want six farmers calling the landlord about a broken fence, and neither does the landlord.

**SCENARIO 2: SINGLE LEASE**

In this scenario a group of farmers holds a single lease with a landlord. In this case, there is one tenant, which is an advantage from the landlord's point of view.



While it's possible for a group of farmers to jointly sign a lease without forming an entity for that purpose, this is not recommended. The better option is to form a legal entity, such as an LLC, to lease the land. This entity would then execute a sublease with a group farm business or separate subleases with individual farm businesses. The farmers in the land leasing entity would typically—but not necessarily—be the same group of farmers as the group or individual farm businesses. This scenario may seem like an extra step, but the advantage is that there is a firewall between the risks associated with holding the land and those connected to the business.

An entity might have more than one lease with one or more landlords. This option might play out if, for example, a landlord cannot offer the same lease terms for all portions of the property or if there are separate leases for land, buildings and/or housing.

**LEASING**

There are many variations to land leasing. In the resources section of this guide you will find references and links to information about leasing farmland. Regardless of the specific leasing model you select for your group, it's important to be well informed about lease basics. Look at sample leases and be familiar with what constitutes a good lease.

Ultimately, a tenant farmer group's vision has to accommodate the landlord. Understand farm leasing from the landlord's point of view. The landlord is a landowner who cares a lot about the property, how it is cared for and what happens to it. A landowner who makes land available for a farming tenant is entering into a relationship and taking on a certain amount of risk. Owners of farm properties vary as to their knowledge of farming and their desire to be involved or informed. Taking on a farmer group as a tenant, or multiple farmer tenants on a property adds additional elements of complexity and risk for the landowner. Coming to the table with a clear vision and objectives for how the land will be treated and used will engender confidence and trust. Designating a point person to communicate with the landlord also helps streamline communications.

**SCENARIO 1: SEPARATE LEASES**

In this scenario each of the farmers in the group enters into his or her own lease, and each has control over and responsibility for his/her own leasehold. The farmers may cooperate by forming a business together or for sharing equipment or markets. This option allows for relatively simple entry and exit for each farmer, although the group might be set up such that the collective has some control over future use of that

**SCENARIO 3: GROUND LEASE**

In a ground lease, the tenant has a long-term lease for the land but owns some or all the structures on it. For example, a group of farmers would lease land from a land trust. They would purchase the house and barn on the property. Or they would have permission to build a house or barn with their own funds that they would then own. In this scenario, the farmer tenants build equity through their ownership of the structure(s), which they can sell back to the landowner or to the next tenant.

**OWNING**

By purchasing land, you hold all the rights associated with ownership, subject to applicable laws and regulations. As with owning a business together, clear policies for governance, authority, and effective decision-making are key to success.

The chosen method of holding title to land affects each owner's rights to transfer the property and to use it as collateral. The ownership structure also determines what will happen to the property when one owner dies or leaves and whether the property can be used to satisfy a debt or judgment. Regardless of entity chosen, the group will need a detailed agreement that specifies the rules for entry and exit, management, and decision-making.

If the group does not form an entity to hold title to the land, the owners are considered tenants in common. Tenants in common each own a fraction of the entire property (not a specific part of it) and each has an equal right to the possession and use of the property (Note that in this case, tenant means a co-owner, not a renter.) Each tenant in common can sell, convey, mortgage or transfer that interest. Tenancy in common is usually used for married couples or for a small family business. It is not recommended for an unrelated group because it provides no liability protection and has other risk factors.

A better choice would be to form an entity to own the land, such as an LLC. For all the reasons mentioned earlier in this guide, an LLC has advantages as a legal entity. Unlike tenants in common, the ownership portions (interest) within an LLC could be equal or unequal. For example, two farmers could contribute more and therefore own a larger percent of the property. The LLC's operating agreement would specify the rules for entry and exit, management, decision-making, allocation of expenses and other details of ownership. The LLC that owns the land could lease to the group farm business, or to separate businesses, just as a landlord would as described above. An LLC could also have other members outside the farmer group as owners, such as investors or community members. The agreement will specify classes of members; which are silent versus who makes decisions.

In addition to the LLC, there are other legal structures to own land. The appendix contains a summary of different land owning models as they function in the state of Vermont.

Separating ownership of the land and the business provides significant advantages in minimizing risk. This makes it possible to transition a member in or out of the business without requiring buying in or out of the property. If acquiring land through financing, it frees the business from carrying a large debt – which again, can make it easier to transition members in or out of the business. It also provides protection for the landowners, since the land can't then be seized to pay debts if the business goes under. It allows for different rules to apply for business operations and landownership. For example, the business could be owned equally

and governed by consensus, while the land is not. The landowning group could be a few of, but not all of the farming group, or it could include friends, family, or supporters. In other words, having separate entities for land ownership and business operations frees the group to be more flexible with their arrangements, makes transitions easier, and builds in protection for both business and landowners should either fall apart. The land owning entity would then lease to the business – even if the land owning entity and the business consist of the same people.

**SUMMARY**

The long-term commitment of owning land together, combined with the relatively complex legal and social considerations, make group land ownership a significant undertaking. Owning and leasing each have their own potential benefits and challenges, which a group can weigh for itself. Leasing may be a more accessible option for groups just starting out and wanting to test their relationships before committing to land purchase.

Great strides have been taken in the past decade toward developing new models for land affordability and accessibility for farmers. Best practices in group land purchase have yet to be fully explored or documented. However, many of the considerations involved are not unique to farming or group purchasing, and should be within the domain of a good lawyer, particularly those with backgrounds in farm transfer or cooperative businesses.

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# SUGGESTED RESOURCES FOR FURTHER INFORMATION AND SUPPORT

## GENERAL BUSINESS RESOURCES

UVM New Farmer Project provides a variety of written resources and webinars on marketing, business planning, land access, and production information.

Cornell's Northeast Beginning Farmer Project and Small Farms Program. Offer trainings, webinars, and publications on both technical and business skills for small and beginning farmers.

Iowa State's Ag Decision Maker hosts many specific tools, worksheets, and calculations for determining enterprise viability.

Small Business Administration provides counseling to small businesses, along with loans, loan guarantees, and other services. Find your local chapter.

Farm Business Online Planning Course from the New Entry Sustainable Farming Project.

## VISIONING

Holistic Management International offers a Whole Farm/Ranch Planning System that addresses the environmental, economic, and social issues farmers and ranchers face today. HMI starts with forming a holistic goal that informs management decisions.

## LAND ACCESS

Land For Good collaborates with farm seekers, landowners, and communities. Services for farm seekers include helping to develop farm acquisition plans and lease agreements and manage landowner relationships. The LFG toolbox page lists land tenure resources and online trainings.

Equity Trust publications page hosts model lease agreements and publications on preserving affordable working farms.

Holding Ground: A Guide to Northeast Farmland Tenure and Stewardship New England Small Farms Institute and the Intervale Center.

The FarmLASTS Project: Farm Land Access, Succession, Tenure and Stewardship

Agrarian Trust Resources Page contains a near exhaustive list of organizations, publications, and other resources on land linking, leasing, and alternative tenure models.

## LAND SHARING & INCUBATOR FARMS

ALBA Incubator Farm Toolkit is a summary of ALBA's experience, operational guidelines and procedures, equipment and irrigation cost allocations and tracking systems, farmer communication forms, lease enforcement form, and other considerations.

Intervale Center provides consultation services for incubator farms and business planning and training for farmers in Vermont.

HMI Land Planning Manual is a series of exercises to create a land plan, a helpful tool for land-sharing groups.

National Incubator Farm Training Initiative (NIFTI) Wiki hosts sample documents, webinars, powerpoints, and more resources for forming incubator farms or land sharing farmers.

NIFTI consulting services are available through Tufts New Entry Sustainable Farming Program.

The Farm Incubator Toolkit by National Incubator Farm Training Initiative. Pages 109-116 cover policies on shared use of land and infrastructure.

Holding Ground: A Guide to Northeast Farmland Tenure and Stewardship, has a chapter devoted to stewardship principles and policies.

Farm Transitions: Family Goals is a discussion tool to articulate long term land goals, and important step for farmers seeking to buy land together.

## COOPERATIVES

Cooperative Development Institute offers up to 5 hours of pro bono consulting for developing group businesses, plus further consultation services and written resources. Their resources page lists helpful publications and other cooperative development groups outside the Northeast.

Co-op 101: A Guide to Starting a Cooperative, by Cooperative Development Institute.

Democracy at Work Network is a network of peer advisors offering technical support to worker cooperatives. DAWN recently launched a Rural Worker Cooperative Assistance program that provides free technical assistance to rural worker cooperatives.

USDA Rural Development Cooperatives Program hosts more than 200 publications on cooperatives, plus periodic grant funding opportunities and other resources.

Cultivate.coop Wiki is an online hub of free information for those interested in cooperatives.

Co-oplaw.org has sample documents and detailed information on cooperative structures. "Choosing an Entity" clarifies the process of forming as an LLC or cooperative.

Solidarity as a Business Model: A Multistakeholder Cooperatives Manual.

In Good Company: A Guide to Cooperative Employee Ownership is an excellent and comprehensive "toolbox" from the Northcountry Cooperative Foundation.

Think Outside the Boss: How to Create a Worker-Owned Business, by Sustainable Economies Law Center, provides advanced information on the legal and organizational components of worker co-ops.



## BUSINESS AND LEGAL STRUCTURING

Doing Business Together: A Joint Business Agreement Guide, NY Farmlink. Provides information primarily on contractual agreements and partnerships.

NOLO Press publishes do-it-yourself and plain-language legal guides useful for forming entities and creating legal agreements.

Form Your Own LLC by Anthony Mancuso.

The Food Law Firm offers legal services to farm businesses, including cooperative formation.

Farmers' Legal Action Group is a nonprofit law center dedicated to providing legal services and support to family farmers and their communities.

Farm Commons provides business legal services to farmers, creates useful legal education resources, and educates attorneys on issues relating to community-based farmers.

## EQUIPMENT SHARING

“Organizing a Machinery Cooperative.” and “Structural Considerations for Machinery Cooperatives.” by Oklahoma State Ag Econ Extension. Overview of user agreements for joint machinery ownership.

The CUMA Farm Machinery Cooperatives provides a breakdown of how CUMAs work ALBA's Memorandum of Understanding on Equipment Use and Equipment Use contract, found in the ALBA Agriculture and Land-based Training Association Farm Incubator Toolkit.

Estimating Farm Machinery Costs by Iowa State Extension offers guidelines for estimating equipment costs.

Farm Machinery Joint Venture Worksheet from Iowa State Extension demonstrates accounting for the costs of sharing equipment and labor among four farmers.

## MARKETING

UVM Marketing Toolshed, a list of helpful resources, webinars, and worksheets from UVM Extension's New Farmer Project.

Cooperative Marketing Manual, from the Federation of Southern Cooperatives. Emphasizes marketing and pricing strategies, based on the cooperative's wholesaling efforts. Includes bylaws and organizing steps.

Running a Low Income CSA, New Entry Sustainable Farming Project. Outlines World PEAS' efforts at targeting low-income communities through their joint marketing program. Includes budgets, administrative tasks, challenges and lessons learned.

Local Harvest: a Multi-Farm CSA Handbook. A SARE-funded detailing of how Local Harvest began, developed, and maintains its multi-farm CSA.

Guide to Starting a Multi-farm CSA, New Entry Sustainable Farming Project. Contains sample agreements for producers and consumers, and nuts-and-bolts details on administrative processes.

USDA Quality Standards

## FEASIBILITY

Feasibility Study Outline by Iowa State University is a great outline of the information a group should seek and consider to determine whether or not the idea is viable.

Vital Steps: A Cooperative Feasibility Study Guide is a detailed primer from the USDA.

## FINANCING AND GRANTS

Guide to USDA Funding for Local and Regional Food Systems, National Sustainable Agriculture Coalition, lists many grant funding opportunities for cooperatives and food businesses.

Cooperative Fund of New England, provides loans and lines of credit, as well as financial services and related technical assistance to cooperative organizations and community-based non-profits in the Northeastern US.

Guide to Financing the Community Supported Farm. A highly recommended resource on alternative financing put together by UVM with SARE funding. Includes detailed information on “customized finance arrangements” like loans from supporters.

USDA Beginning Farmer Program, at Start2Farm.org, provides information on the government loans and grant funding opportunities currently available, many of which prioritize funding to beginning farmers.

## GOVERNANCE, CONFLICT, AND COMMUNITIES

FSA Ag Mediation Program, sponsored by the USDA, provides low- or no-cost mediation to farmers in conflict. Follow the links to locate a local branch.

National Association for Community Mediation hosts a map where you can find a local nonprofit or government agency able to assist those in conflict for free or reduced fees.

Creating a Life Together, by Diana Leafe Christian, on creating Intentional Communities. Contains a wealth of information and wisdom on group process and buying land as a group.

The Empowerment Manual, by Star Hawk. The additional online chapter is free and is a colorful resource for understanding decision-making and facilitation.

Fellowship for Intentional Communities has lots of resources on many types of communities.

The Federation of Egalitarian Communities, for groups like Acorn that hold land and labor in common.

Cohousing.org, for groups like Cobb Hill that want to build a residential community of houses.

# COOPERATIVE IDENTITY, PRINCIPLES AND VALUES

## *The International Co-operative Alliance*

### DEFINITION

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

### VALUES

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

### PRINCIPLES

The co-operative principles are guidelines by which co-operatives put their values into practice.

#### 1. VOLUNTARY AND OPEN MEMBERSHIP

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

#### 2. DEMOCRATIC MEMBER CONTROL

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

#### 3. MEMBER ECONOMIC PARTICIPATION

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

#### 4. AUTONOMY AND INDEPENDENCE

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

#### 5. EDUCATION, TRAINING AND INFORMATION

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

#### 6. CO-OPERATION AMONG CO-OPERATIVES

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

#### 7. CONCERN FOR COMMUNITY

Co-operatives work for the sustainable development of their communities through policies approved by their members.

# AVOIDING POTENTIAL PITFALLS IN COOPERATIVE FARMING

## *From USDA Cooperative Report 7: How to Start a Cooperative*

New organizations are most vulnerable in their early formative years. Here are some tips for new cooperatives to avoid potential pitfalls:

1. **Lack of clearly identified mission**-A new cooperative shouldn't be formed just for the sake of forming one. The potential member-user must identify a clear mission statement with definite goals and objectives.
2. **Inadequate Planning**-Detailed plans for reaching defined goals and the mission are important. In-depth surveys of the potential member-user needs coupled with business feasibility studies are necessary. Stop the organizational process if there isn't sufficient interest in the cooperative by potential member-users or if it isn't a sound business venture. The human cost in time and organization expense may be better used elsewhere.
3. **Failure to use experienced advisors and consultants**-Most persons interested in becoming member-users of a new cooperative haven't had cooperative business development experience. Using resources persons experienced in cooperative development can save a lot of wasted motion and expense.
4. **Lack of member leadership**-Calling on the services of experienced resource persons can't replace leadership from the organizing group. Decisions must come from the potential member-user group and its selected leadership. Professional resource persons should never be in decision-making positions.
5. **Lack of member commitment**-To be successful, the new cooperative must have the broad-based support of the potential member-users. The support of lenders, attorneys, accountants, cooperative specialists, and a few leaders won't make the cooperative a business success.
6. **Lack of competent management**- Most cooperative members are busy operating and managing their own businesses and lack experience in cooperative management. The directors hire experienced and qualified management to increase the chances for business success.
7. **Failure to identify and minimize risks**-The risk in starting a new business can be reduced if identified early in the organizational process. Careful study of the competition, Federal, State, and local Government regulations, industry trends, environmental issues, and alternative business practices helps to reduce risk.
8. **Poor assumptions**-Often, potential member-users and cooperative leaders overestimate the volume of business and underestimate the costs of operations. Anticipated business success that ends in failure places the organizers in a "bad light." Quality business assumptions tempered with a dose of pessimism often proves to be judicious.
9. **Lack of financing**-Regardless of the amount of time spent in financial projection, most new businesses are underfinanced. Inefficiencies in startup operations, competition, complying with regulations, and delays often are the causes. Often, the first months of business operations and even the first years are not profitable, so adequate financing is important to survive this period.
10. **Inadequate communications** - Keeping the membership, suppliers, and financiers informed is critical during the organization and early life of the cooperative. Lack of or incorrect information can create apathy or suspicion. The directors and management must decide to whom and how communications are to be directed.

# VISIONING EXERCISE: WRITING A HOLISTIC GOAL

*from Holistic Management International*

## A Worksheet for Writing Your Holistic Goal

There are three key parts of a holistic goal: quality of life, behaviors & systems and vision (described below.) Key points to consider in writing your holistic goal:

- The holistic goal is generally written in the above order because each component builds on the previous one.
- It is also very important that you have completed your management inventory, in particular that you've identified who the chief decision makers are. They must be involved in creating your holistic goal.

**Quality of Life:** Basically asks the question, "How do I want my life to be?"

- It connects to our values systems—why are we doing what we're doing? What motivates us?
- Quality of life statements are usually written in the present tense: "We are, we value, we want" versus, "we will, we hope."

**Behaviors & Systems:** Once you've identified the quality of life you want to have, you need to determine what you are willing to commit to doing to create the quality of life you just described.

- The question here includes: "What do I have to produce to live a life like that?"
- Generally speaking, for each quality of life statement written, there is a corresponding behavior or system to produce it.

**Vision Statement:**

The Vision Statement asks you to think about what needs to be in place to sustain the quality of life far into the future. Take a look at the asset base you described when you completed your management inventory—people, land, money.

1. **How you have to behave.** A description of how you must behave if the people in your resource base (customers or clients, the people in the community, etc.) are to continue to support you.
2. **The future landscape.** A description of how the *land* in your asset base *must* be in the future to sustain what you produce. If you are managing land, describe how the ecosystem processes must function to create that future landscape.
3. **The future community.** A description of your *community* and the services that must be available (schools, medical facilities, stable businesses, etc.) to sustain your quality of life well into the future.

**Your Quality of Life and Behaviors & Systems**

Quality of Life	Behaviors & Systems

## **Your Vision Statement**

***How You Want to Be Seen By Neighbors, Customers,  
Community Members***

***The Characteristics of the Land Surrounding Your Community***

***What Your Community Needs to Be Like***

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**Legal mechanisms when considering co-ownership of land or co-housing**

When considering co-ownership of land, especially land that may be income-producing like farm or forestland, or a mixture of housing and undeveloped land, people need to think in two different but related categories. There are legal mechanisms for co-ownership of land (see A, below “Community Structures”) AND there are legal mechanisms for co-ownership of land and/or business ventures (see B, below “Legal Entities”). Think of them as an odd assortment of legal tools formed over time by economic & cultural shifts and tax law: none may be perfect for your situation - but they can be combined or adapted to fit. This matrix is based on *Vermont state law* – other states will differ.

**A. Community Structures** that address land co-ownership only.

<u>Community Structure</u>	<u>Quick Synopsis</u>	<u>Brief Description</u>	<u>Transferability</u>	<u>Taxes</u>	<u>Liability</u>
<b>1. Common Interest Community</b>  Including condominiums and planned communities  (Law: 27-A VSA Chapt. 1 et seq. and 27 VSA Chapt. 15: Condominium Ownership Act)	This is a viable choice for many because individuals can own their own homes and access good financing options. At the same time individuals share an interest in the common lands.  These can be set up as a for-profit or nonprofit corporation, or possibly an LLC. There is a lot of flexibility in designing its decision-making system, such as to provide for a collaborative or consensus-type process and philosophy.  Note: Forget preconceived notions of “condos”. They can be free-standing homes; the type of architecture is completely flexible.	A Common Interest Community is a system whereby individuals own their own homes (“units”) & share an interest in common lands & bldgs.  In a condominium, each unit owner owns an undivided share of the common areas, so a change in the common areas may require the approval of all unit owners.  In a planned community, the homeowner’s association owns the common areas, so a majority of the governing body of the association can make decisions about changes to the common areas.  In any common interest community, a “declaration” is the document that sets out all owners’ rights and responsibilities.	Units are easily transferred to buyers or can be inherited by heirs.  If you are concerned about future residents, there can be covenants and restrictions placed on the homes such that only people who are interested in being active in the co-housing community and its goals would be likely to buy or stay. The Homeowners Assoc. could also keep a Right of First Refusal or an Option to Buy any home that comes on the market.	Homeowners Associations, even if tax-exempt nonprofits, are subject to taxation on business income at rates for regular corporations. This may apply if the common areas make income from farming or forestry or other cottage industries.  Property taxes assessed to individual units.	The homeowners association would likely be formed as a legal entity (below) to shield indiv. owners from liability. The homeowners assoc. would need to carry lib. insurance. (Be aware one irresponsible resident could raise everyone’s costs. Also protections are not foolproof.)

<u>Community Structure</u>	<u>Quick Synopsis</u>	<u>Brief Description</u>	<u>Transferability</u>	<u>Taxes</u>	<u>Liability</u>
<p><b>2. Community Land Trust</b> (Law: there is no specific enabling statute for Community Land Trusts although other VT statutes recognize their existence. A Community Land Trust would be formed under regular VT nonprofit statutes.)  For clarification about the term "trust", see footnote below. *</p>	<p>This would be a big leap from individually-owned land to a nonprofit devoted to affordable housing and/or farming.  A Community Land Trust structure is used in situations where all residents are 100% committed to a strong social goal of affordable housing, and/or affordable farming for everyone, at some cost to traditional individual equity-building.  Financing for 99-yr. leased homes costs more and options are more limited, so this may not be as viable an option as a Common Interest Community, above. There are successful examples out there though.  Don't get this mixed up other types of "land trusts." See footnote.</p>	<p>The nonprofit Community Land Trust owns the land and leases it, including the housing, to individuals, usually for 99-year terms (that are renewable on the same terms). It is formed in response to social goals of keeping land owned by a community, rather than individuals, which provides for permanent affordability of housing and/or parcels of farmland.  Leaseholders can build equity in the buildings and improvements they contribute, but not from the land itself. Upon resale, leaseholders are restricted to selling (re-leasing) their buildings &amp; improvements at current replacement costs, excluding the land's market value.  Much of the long-term equity earned is returned to the community land trust instead of individual leaseholders. But by the time the leaseholder has paid for higher financing terms, their equity built may be minimal.</p>	<p>There are usually restrictions on transferability so the property is sold at an affordable price to persons of low-income. Sometimes units can be inherited by heirs; it depends how the organization and its ground leases are set up. 99-year leases are renewable. It may be difficult to find parties interested in this non-traditional arrangement so although the homes would be affordable, the pool of potential buyers would be smaller than the traditional market.</p>	<p>Nonprofits are still subject to taxation on income-producing enterprises.  Individual owners would pay property taxes on their own structures and theoretically the overall community land trust would be responsible for taxes on the land base. But this may vary in actual practice since the individuals make up the community land trust.</p>	<p>See answer above.</p>



<b><u>Community Structure</u></b>	<b><u>Quick Synopsis</u></b>	<b><u>Brief Description</u></b>	<b><u>Transferability</u></b>	<b><u>Taxes</u></b>	<b><u>Liability</u></b>
<p><b>3. Cooperative Housing</b> including Equity Cooperatives  (Vermont Law: 11 VSA Chapt. 14)</p>	<p>This would be another big leap. Use this only if you are 100% committed to perpetual affordability for EVERY house. The strings attached might be too severe for most people.  Less Extreme Alternative: If you are interested in affordability mechanisms for SOME of the homes, you could look into granting affordability covenants on a portion of the housing to a local Community Housing Trust. (See Note on "Trusts" in footnote below.)</p>	<p>Its sole purpose is to foster AFFORDABLE housing for low-income (80% or less than median income for the area) or moderate income households. People would need to qualify based on income.</p>	<p>There are usually restrictions on transferability so the property is sold at an affordable price and to persons of low-income or moderate income.  Sometimes units can be inherited by heirs; it depends how the organization is set up.</p>	<p>Nonprofits are still subject to taxation on income-producing enterprises.  Individual owners would pay property taxes on their own structures and the coop would pay taxes on the land base -but this may vary in practice since all owners are coop members.</p>	<p>See answer above.</p>
<p><b>4. Development Subject to Mutual Covenants</b></p>	<p>This does not necessarily need to be a formal entity, but a development or neighborhood could agree to subject individual properties to mutual covenants, forming a type of community.  They could also agree to co-own a common parcel of land that could be used by the members (eg, farm/garden, park/playground, woodland). The co-owned parcel could be owned as a homeowner's association or as one of the legal entities below or perhaps with a very small community, simply as tenants in common with percentage shares.</p>	<p>This would have few to no limits, subject to the owners' (or developer's) imagination.</p>	<p>No limits, but subject to finding buyers willing to accept and abide by the mutual covenants; more restrictive covenants may lower values somewhat unless it becomes a really desirable community.</p>	<p>None, or if common land brings in an income, see "Common Interest Community," above.  Individual owners responsible for their own property taxes.</p>	<p>Neighbors or the legal entity they form would be responsible for enforcing the terms of the covenants on each other.  In co-ownership, liability insurance a good idea.</p>

<u>Community Structure</u>	<u>Quick Synopsis</u>	<u>Brief Description</u>	<u>Transferability</u>	<u>Taxes</u>	<u>Liability</u>
<p><b>5. Simple tenants in common co-ownership</b></p>	<p>This is the traditional way for multiple people to own land. Each as a fraction of a share in the land.</p>	<p>Although this is the simplest co-ownership option, it leads to complications if one co-owner dies and multiple heirs inherit that person's fractional share. Or if one co-owner wants to leave and sues to have their share bought out by the others which leads to unanticipated debt, or subdivision, or possibly selling entire property and disbanding. This could also happen when a creditor of one co-owner forecloses on that person's fractional share then sues to be bought out. There are also no liability protections as there are with LLCs or corporations.</p>	<p>No limits, but may be difficult to find willing buyers considering the partners and all the drawbacks of this mechanism.</p>	<p>All co-owners taxed individually by their own incomes.  All are responsible for property taxes as a group – if one person does not pay their share, they are all on the hook.</p>	<p>No protections.</p>
<p><b>6. Trusts * for family ownership or estate planning benefits.</b>  (This could also fall into "legal entities" category below)</p>	<p>These types of trust are typically a product of estate planning.</p>	<p>Trusts may be set up for a number of reasons such as when landowners want to avoid probate, provide for co-ownership by their beneficiaries, provide for management by a responsible trustee, and sometimes to avoid having their heirs pay estate taxes.</p>	<p>Beneficiary interests not transferable. By law, these types of trusts cannot last forever.</p>	<p>These are not usually set up as business mechanisms although the trust's assets may earn &amp; distribute income. Income &amp; property taxes depend on how the trust is formed.</p>	<p>Beneficiaries are usually protected.</p>

**B. Legal Entities** can address both business relationships and/or land co-ownership. You could form more than one legal entity: one for the community structure, and another (or several) for any income-producing farming, forestry or cottage industries. Or one legal entity might be able to serve both purposes.

<u>Legal Entity</u>	<u>Quick Synopsis</u>	<u>Brief Description</u>	<u>Benefits &amp; Liabilities</u>	<u>Taxes</u>	<u>Transferability of Interests</u>
1. Corporation (for-profit type)	A for-profit corporation is probably not helpful in your case unless you have a group business that thrives. An LLC could probably do the same thing with less red tape and more flexibility.	For-profit corporations provide a built-in stock structure by issuing stock options which is handy for attracting investment capital. They can also be helpful if you want to pay yourself a salary in addition to splitting the net income. The drawback is "double taxation" – see Taxes column.	A corporation usually protects individual owners or shareholders from liability.  "Double taxation" (see Taxes column) can be a liability. However, when there are no profits or few profits, this does not matter.  Corporations are very difficult to discontinue once they are formed. You want to be certain about your plans if you form one.	When there are profits, there may be "double taxation." This means (a) the corp pays taxes at special corporate tax rates on any profits that are not deductible; and then (b) the owners pay taxes on profits paid out to them in salaries, bonuses, or dividends (if any).  If agreed, profits can stay within the business without being subject to taxes paid by shareholders.  Corporate fed. income tax rates are usually lower than individual tax rates on the first \$75K of profit (but this may change).	Freely transferable

<u>Legal Entity</u>	<u>Quick Synopsis</u>	<u>Brief Description</u>	<u>Benefits &amp; Liabilities</u>	<u>Taxes</u>	<u>Transferability of Interests</u>
2. S-Corporation	Like C-corps, S-corps provide a built-in stock structure by issuing stock options which is handy for attracting investment capital. S-corps can be helpful in some higher tax bracket situations, or when there are 10+ investors or you want stock options in addition to paying yourself a salary in addition to splitting the income.	This provides liability protection like a corporation, but for tax purposes is closer to a partnership.	A corporation usually protects individual owners or shareholders from liability. Corporations can be difficult to discontinue once they are formed. You may find more flexibility and similar benefits with a LLC.	Instead of the s-corp paying taxes, the income "passes through" to the shareholders so they pay the taxes based on their individual incomes and tax brackets.	Can be designed to be transferable.
3. Nonprofit Corporation	This would be a viable choice for all the community structures in the matrix above. A separate for-profit business entity could be formed for the farming, forestry, or other cottage industries, or the nonprofit could opt to pay taxes on business income.	Nonprofits are formed under state law. Sometimes they can also be formed under federal law if you want a charitable 501(c)(3) designation, but I do not recommend that in your case; you would need a much broader charitable mission that qualifies under federal law, then be subject to high stringent federal laws and regulations.	A corporation usually protects individual officers and members from liability.	A nonprofit is normally tax-exempt but if it makes income, it must pay taxes on it. (Or other for-profit entities could be formed for the businesses.)	N/A – No individual interests

<u>Legal Entity</u>	<u>Quick Synopsis</u>	<u>Brief Description</u>	<u>Benefits &amp; Liabilities</u>	<u>Taxes</u>	<u>Transferability of Interests</u>
4. Limited Liability Company (LLC); in some states there are also limited liability partnerships.	This would be a viable choice for any business venture. They can be formed like any kind of general partnership or like a limited partnership (owned by members but run by a manager), or serve a single individual. LLCs have a lot of flexibility throughout their life so may be altered by the members as circumstances change. LLCs are less helpful in complex investments such as with 10+ investors in high tax brackets, or if stock options are wanted.	LLCs are formed under state law. Vermont's is very general. Normally LLCs are discontinued once a member leaves or dies, but there are ways to build in longevity –just take care how it is formed and the Operating Agreement worded. LLCs are more easily discontinued than corporations, which provides for more flexibility, however a bit less stability.	These were created to protect owners from liability.	This is a 'pass-through' tax entity: all owners report their share of the net profits or deduct their share of losses on their personal income tax returns. Owners pay taxes on net income, regardless of how much they actually took out of the business.  Note: you may opt to have the LLC taxed like a corp, or the IRS may choose to tax an LLC like a corporation if it finds the LLC's structure is more similar to a corporation.	Depends how the Operating Agreement is written. If you don't want to be taxed like a corp, the LLC needs to meet certain criteria too lengthy to describe here.
5. LLC- Low Profit (L3C)	A type of nonprofit only recognized by the State of Vermont (until federal law catches up). Only applicable when a community is devoted to a charitable purpose.	These are a new creation under Vermont law. They are formed for charitable or educational purposes, piggy-backing onto federal 501(c)(3) law -- but without that federal designation. They are similar to a private foundation.	These were created solely to protect managers & officers of a VT nonprofit or low profit organization from liability.	They are designed to promote a social cause rather than make income, but if they make income, I believe they are taxed like a corporation's business related income.	N/A No individual interests.
6. Partnership	There is no protection from liability so it is usually preferable to set any sort of partnership up as an LLC or S-Corp.		No protection.		Depends how the partnership agreement is written.

<u>Legal Entity</u>	<u>Quick Synopsis</u>	<u>Brief Description</u>	<u>Benefits &amp; Liabilities</u>	<u>Taxes</u>	<u>Transferability of Interests</u>
<p>7. Cooperative in a general sense (11 VSA Chapt. 7, § 981)</p> <p>In VT, a coop must be combined with either a for-profit or nonprofit corporation legal entity.</p>	<p>This could pertain to a business you might operate on the common land if it were to provide a service to its patrons or members.</p>	<p>A cooperative is a business that is owned, financed, and controlled by the people who use its services. Unlike other businesses, earnings are allocated and distributed to members based on patronage -- not to investors based on equity.</p> <p>In VT, a coop must also be a corporation (either for profit or nonprofit), and either be a worker cooperative (per 11 VSA ch. 8) or for affordable housing (above), or comply with the all terms of 11 VSA Chapt. 7, § 981: Per VT law e.g., each shareholder has only one vote, etc.</p>	<p>As a corporation it protects owner-patrons from liability.</p>	<p>There is a single federal income tax on earnings generated by the cooperative business (assuming there is a net profit). Net margins are not taxable income to the patrons if refunds are allocated according to certain tax rules.</p>	<p>Can be designed to be transferable.</p>

\* **Footnote about the term "Trusts":** It is easy to confuse various legal structures and organizations that include the words "Land" and "Trust" in their names. Here is a quick synopsis of the distinctions between the most common uses of the term.

- (1) A **Community Land Trust** is a community-based organization -- usually a nonprofit but not necessarily a 501(c)(3) -- that owns land on behalf of a small community and holds it in trust, usually to capture equity gains for the community, rather than individuals, but provide for continued affordability to future residents of homes and/or farmland. It is included in the matrix, above.
- (2) There are also **Community Housing (Land) Trusts** which are charitable 501(c)(3) nonprofit corporations that operate similar to Community Land Trusts, above, but more broadly. Community Housing Trusts are committed to providing affordable housing (both owned and rented) in various locations within their geographic service region, and at least so far in Vermont, focus on housing but not farmland. They keep housing affordable by means of holding affordability covenants or equity-sharing arrangements on individual homes, as well as renting out apartments. Examples of community housing trusts in Vermont include the Central Vermont Community Land Trust, Champlain Housing Trust, and Rockingham Area Community Land Trust. Although "land" often appears in their name, Vermont housing trusts do not conserve undeveloped open-space land, choosing to leave that to land conservancies, described next.
- (3) A different entity called a **Land Trust** or **Land Conservancy** is a charitable 501(c)(3) nonprofit corporation committed to conserving undeveloped open space land, usually for farming, forestry, recreation or natural areas, by either owning it in fee or holding perpetual covenants and restrictions on it called "Conservation Easements." The Vermont Land Trust is such a land trust, as well as the The Nature Conservancy, and about 25 smaller conservancy-type land trusts scattered over Vermont.
- (4) Sometimes people form **individual, family, or marital trusts** as an estate planning tool. In lieu of having a will, they form a trust to bypass the probate process. Sometimes there are estate tax benefits. The trustee (manager of the assets) and beneficiary (person who benefits from the assets) may be the same individual, or different. There are many types such as revocable, irrevocable, qualified personal residence trusts (QPRT), etc. Since many trusts' main assets are real estate, these trusts are sometimes given names that include the word "land," for example, the "Jane Doe Land Trust dated January 29, 2009," with Jane Doe initially serving as Trustee.
- (5) There are also **Real Estate Investment Trusts** (REITs) which are certain types of corporations that attract investors for real estate ventures.