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**Non-agricultural Cooperatives in Rural Areas: Fourteen Case Studies**

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**Abstract**

The cooperative model, although prevalent in rural areas, has been somewhat limited to the agricultural sector. The predominance of cooperatives and their general success in a wide variety of businesses, however, points to greater potential for non-agricultural cooperatives in rural community development. To better understand the conditions under which non-agricultural cooperatives have played a successful role in rural development, fourteen innovative non-agricultural cooperative ventures across the US were studied in 2001. By virtue of the selection criteria, all fourteen case studies represent innovative, non-agricultural cooperative ventures serving rural communities. The case studies include cooperatives that have created new economic development ventures unrelated to their core business; cooperatives whose core business is an innovative approach to local economic development; and a set of cases that represent new opportunities for the cooperative model.

## Introduction

The cooperative model, although prevalent in rural areas, has been somewhat limited to the agricultural sector. The predominance of cooperatives and their general success in a wide variety of businesses, however, points to greater potential for non-agricultural cooperatives in rural community development. To better understand the conditions under which non-agricultural cooperatives have played a successful role in rural development, fourteen innovative non-agricultural cooperative ventures across the US were studied in 2001.

Contacts at cooperative development centers, university cooperative centers, and state cooperative trade associations, helped identify potential cooperatives. An effort was made to find cooperatives in sectors that had the greatest potential to stimulate local economic growth. While consumer and service cooperatives, such as those involved in housing, day care and groceries, play important support roles in a local economy, they are not major engines of economic growth. The cooperatives studied were chosen based on the following factors: (1) location (they represent rural areas in different regions across the US); (2) the innovativeness of the business; and (3) the local economic development impact.

The case studies involved visits to the cooperatives and detailed interviews with co-op managers, board members, and key community individuals. A sample questionnaire, which was modified somewhat to fit the position of the person(s) being interviewed, is attached (Appendix). The data gathered through the interviews and secondary sources included information on the following:

- Management/organizational structure of the cooperative
- Cooperative membership statistics
- Capitalization of the cooperative
- The cooperative's rationale for engaging in economic development activities
- Description of the primary activity of the cooperative
- Description of economic development activities, both qualitative and quantitative (to the extent possible), undertaken by the cooperative
- Description of the cooperative's impact in the community/region
- Other factors cooperatives identify as important to their economic development role

By virtue of the selection criteria, all fourteen case studies represent innovative, non-agricultural cooperative ventures serving rural communities. The case studies include cooperatives that have (independently or jointly with other cooperatives) created new economic development ventures unrelated to their core business. Many of these examples are rural electric cooperatives that have financed and organized new small businesses, which may or may not be organized as cooperatives. Other cases cover cooperatives whose core business is an innovative approach to local economic development; for instance, an artist cooperative that operates a local gallery. These cooperatives tend to exist outside the mainstream cooperative movement and have very limited or no contact with other cooperative organizations. Finally, a set of cases that represent new

opportunities for the cooperative model were also studied. They comprise examples of development initiatives where many of the core features of a cooperative characterize the firm but a cooperative model was not chosen.

<b>Cooperative Case Studies</b>		
<b>Name of Cooperative (and development venture)</b>	<b>Location</b>	<b>Economic Development Activities</b>
1. Northern Electric Cooperative (Lefse Shack)	Opheim, Montana	Specialized bakery
2. Northwinds Publishing Company	Great Falls, Montana	Printing and publishing
3. Flathead Electric Cooperative (Evergreen Rail Industrial Park)	Kalispell, Montana	Industrial park
4. Rural Electric Cooperative (Country Living Homes)	Lindsay, Oklahoma	New house construction
5. Central Iowa Power Cooperative (Iowa Capital Corporation)	Cedar Rapids, Iowa	Business recruitment, venture capital, etc.
6. Pee Dee Electric Cooperative (Pee Dee Electricom)	Florence, South Carolina	Business recruitment, industrial park, etc.
7. The North Coast Co-op	Arcata, California	Full service grocery store
8. Foodworks Culinary Center	Arcata, California	Kitchen incubator program
9. Northcoast Artists	Fort Bragg, California	Art gallery
10. Rural Wisconsin Health Cooperative	Sauk City, Wisconsin	Promotes and provides rural health care
11. Garrett Rural Information Cooperative	Garrett County, Maryland	Internet service provider
12. Salmon Trollers Marketing Association	Fort Bragg, California	Collective bargaining and lobbying for salmon trollers
13. Locally Owned Business Organization	Grand Junction, Colorado	Promotes locally-owned businesses in the county
14. Northern Colorado Water Conservancy District	Loveland, Colorado	Manages water transfers from Colorado river

The following presents a summary of each cooperative case study. An analysis of the results can be found in *The Potential for Non-Agricultural Cooperatives in Rural Communities*, UWCC Staff Paper No. 3 (May 2003).

## **1. Northern Electric Cooperative—Garud's Lefse Shack**

In 1997 Northern Electric Cooperative purchased Garud's Lefse Shack, a small, specialized bakery in Opheim, Montana that produces lefse, a traditional Norwegian potato bread. The lefse is sold to customers across the country, but mainly in Montana and North Dakota. The Lefse Shack had been in business in Opheim for over twenty years as a family business until 1996 when the original owner decided to retire. While there were offers from investors outside the state who wished to purchase the business and relocate it to either Minnesota or North Dakota, no local purchaser could be found. External investors were interested, even though recipes for lefse are readily available, because the previous owner appears to have had a particularly good recipe and had developed a set of specialized machinery for the production of lefse that reduced the amount of hand labor and resulted in a consistent product. These two items gave it enhanced market value and made it attractive as a business that could be relocated to another place.

However, the founder wanted the business to stay in Opheim where it was a major private employer and the workers were interested in remaining in the community. Most had more than 10 years of employment in the firm. Northern Electric was able to purchase the company from the owner for a price significantly less than the amount that had been offered by out-of-state investors who wanted to relocate the plant. In addition, the owner agreed to finance a considerable portion of the sale. One might conclude that by taking a lower price, the owner made his own equity investment in the Lefse Shack. Since Opheim is a very small community, approximately 100 people, the loss of 14 full time and 13 part time jobs would have caused a major decrease in local employment and income. The closest community where comparable work might have been available is fifty miles away, and since the jobs at the Lefse Shack pay close to minimum wage, the workers would be competing in that segment of the labor market. The cost of commuting to work would exhaust much of their earnings. For Northern Electric, which has its headquarters in the town, this may have been a relevant issue. In addition, a large share of the potatoes used by the firm is purchased from a single farm in Northeast Montana, so there were some linkage effects.

Northern Electric was able to retain the workers and promoted one of the most experienced to be the manager. Northern provides bookkeeping and financial services for the enterprise, but does not involve itself in production and marketing decisions. The firm has continually earned a modest profit, which supplements the income of the cooperative. Northern has no plans to sell the firm since it sees it as an integral part of the local economy. The same year that Northern acquired the Lefse Shack it purchased half the distribution territory of a propane company. Northern and the co-owner of the propane company have a non-compete agreement. At present Northern has no plan to purchase other businesses because they are unable to identify any opportunities in the area.

For the Lefse Shack to expand, major infusions of capital and concerted efforts to expand markets beyond the traditional ones it has currently captured would be required. Most

importantly significant expansion may require relocation to another community because of the limited availability of local labor. There may not be enough people in Opheim to allow significant expansion using the current production methods.

The Lefse Shack is an interesting case even though there were limited local benefits beyond direct employment and the revenue received by a local potato grower. Lefse is not an essential product. It is a business that has limited growth potential in the community and does not provide a large income stream for Northern. This suggests that a community development concern was large enough to motivate the investment. On a positive side, the Lefse Shack was an established business that could be purchased at a significant discount and which presented limited risk to Northern. In addition, it generated considerable good will for Northern both in Opheim and in its larger service area.

## **2. Northwinds Publishing and Printing Company**

Northwinds is a publishing and printing company located in Great Falls, Montana. It is owned by seven cooperatives, three electric (Sun River, Vigilante, and Glacier) and four telephone (Three Rivers, Nemont, Triangle and Blackfoot). In 1989 three of the telephone cooperatives, Three Rivers, Nemont and Triangle, had created a publishing company, Montana Directories, because they believed that a publishing company made sense for them as an investment due to their significant direct publishing expenses for telephone books. In 1992 these three companies joined with Blackfoot and the three electric cooperatives to create a start-up printing company called Metcap. This company was seen as providing an opportunity to reduce external printing costs and generate revenue from commercial sales. Each cooperative contributed a small amount of equity to start Metcap, but all pledged guarantees to finance the purchase of a five-color press and set up the printing operation in Sun River, a small community outside Great Falls. In addition, the Montana Association of Electric Cooperatives (MECA) also agreed to guarantee a portion of the debt issued by Metcap. Because of these guarantees Metcap had no problems in borrowing money, but as a result it started out with limited equity and a large debt load. Montana Directories continued as a separate publishing company but used Metcap as a printer.

The cooperatives hired a manager and established a board of directors for Metcap that consisted of the general managers of the seven cooperatives. With the initial equipment they could produce the cover for telephone books but had to contract with another firm for the printing of the directory listings. This resulted in limited revenue opportunities. Plans to do commercial printing were not fully successful because there were several other printing operations in the area that focused on the same niche and had more experience. As losses mounted, additional investments were required and the three electric cooperatives, MECA and Blackfoot became less enthusiastic about the project.

In 1995 the three telephone cooperatives that owned Montana Directories purchased an existing printing company in Great Falls, AA Printing, which had a press capable of printing the actual telephone book listings. At the time, AA Printing had a viable business

and was roughly three times the size of the Metcap operation. By late 1995 the losses at Metcap had reached a point that the company was no longer viable. However, closing the company would have triggered loan guarantees and caused major losses for all the participants. To avoid this, the participants, except MECA, agreed to make a new capital infusion into Metcap and retire some of its debt, which had the effect of increasing their equity contributions. MECA remains as a guarantor for some of the loans. At the same time Montana Directories agreed to absorb Metcap, which gave three of the telephone companies a much larger share in the resulting business. The new business assumed the name Northwinds Publishing and Printing.

At that time the cooperatives replaced the management, but the board remained the same. By consolidating the two businesses the cooperatives believed they could become more competitive by offering a broader set of capabilities to customers. However, the fact that the presses were in different buildings twenty miles apart, and that binding and mailing were split between the two buildings made the operation inefficient. In addition, the integration of the two businesses did not proceed smoothly. To address this problem it was decided to build a new facility that could house both presses and all the staff, which now numbered 60, and would allow a more orderly production process. Additional funds from the Rural Telephone Finance Corporation were borrowed, but once again the cooperatives had to provide guarantees.

Losses continued and in February 1998 the Board determined that once again they had to recognize that the business might not be viable. They replaced the manager with a professional accountant who was charged with establishing how bad conditions were and closing the operation. After a short time it was determined that with better management and greater focus it may be possible to turn the company around and sell it as a viable enterprise. The five-color press has recently been sold and the company now concentrates on getting better use of the web press, since it is the largest commercial web press in Montana. The company still focuses on producing telephone books but now print the directory listings and contracts out production of the color work for covers. It is also targeting a wide range of commercial printing services.

The board for the reorganized company now consists of three telephone cooperative managers and two electric cooperative board members. Unlike earlier times, the board now meets monthly and is required to vote on significant management decisions. The number of employees has declined to 42 and when the operation moves to the new building, numbers will decline further. Orders have increased by 40 percent since March 1999 and the seven cooperatives are now considering retaining their holdings in the company, even though they are not likely to see a positive return on their investment for a number of years.

The two central lessons from Northwind are the danger of starting a business that requires significant technical skills and financing it with too much debt. These problems were compounded by a failure of the board to monitor the business on a regular basis and the difficulty the coalition of cooperatives had in accepting the need to replace management. While the investing cooperatives saw internal cost savings from having an in-house

printing firm, they had unrealistic expectations about their ability to generate other customers in what proved to be a market with lots of competitors who had considerably more experience and an existing customer base.

### **3. Flathead Electric Cooperative—Evergreen Rail Industrial Park**

Flathead Electric Cooperative, with headquarters in Kalispell, Montana, owns the Evergreen Rail Industrial Park (ERIP) as a wholly owned, non-cooperative subsidiary. When the cooperative relocated to its current building in the mid 1960s it had purchased almost 40 acres of land. Most of the land was initially rented for farming purposes but by the mid-1990s, as property values in the area increased, the cash rents were only just covering property taxes. A portion of the land was sold in the 1980s to the Bonneville Power Association for an administrative and operations building. As development in the area increased, the value of the land as an industrial site also increased, particularly since it was already zoned for industrial development.

From the start, the cooperative determined that it was in its long-term interest to develop the property in a selective manner, if only because any development would be adjacent to its offices. Consequently they recognized this would mean that a considerable period of time might pass before a positive return on investment was recorded. While the cooperative could have sold the land to a private developer it would have had no control on the type of development that would have surrounded it. At least as important in the conceptual stage was the recognition that by undertaking the development function themselves the return to the cooperative would be much higher and it could be structured in a way that would provide an ongoing source of income for the cooperative.

Converting the land from its raw state into a viable development site required further investment to purchase small parcels of land that allowed assembly of a complete block with a regular shape. In addition, significant investments in water, roads and sewage systems were required. To provide sufficient sewage capacity required a long negotiation with the local government because sewage treatment facilities were in short supply. The fact that the community regarded the cooperative as a good corporate citizen helped the cooperative negotiate for a significant allocation of sewage capacity to the site. Because the cooperative had a design plan that was endorsed by the community, and in which the cooperative made a commitment to follow, it was relatively easy to work with the local government.

In 1995 the cooperative created the wholly owned subsidiary, with the cooperative as the sole shareholder. A separate board was created to oversee ERIP and develop the land as a light industry park. This board consists of two members of the Board of Flathead, the Flathead general manager and two members of the Flathead Cooperative. Staff for ERIP are provided by Flathead. These actions were carried out by a Flathead Board decision, but there was considerable prior discussion with the membership. Since no assets were disposed of there was little controversy and the cooperative believes it can generate a 10 to 12 percent rate of return on the investment.

To reduce the cash outflows, the cooperative sold three lots and used the proceeds to pay for development expenses. Other lots are being leased on a 15-year basis with renewal terms and price escalator clauses included in the original lease. For the most part, ERIP is being marketed to existing businesses that are looking for a new location and can pay the current price. But if a company came to ERIP that had limited cash and was seen as a desirable tenant for the park there is some possibility of Flathead providing a different lease structure that back-loaded payments to allow the company to locate at the park. While there are no targeted industries, Flathead is trying to ensure that the property is used in ways that are consistent with the basic design philosophy. At present the project is still not generating a positive cash flow, but after one or two more lots are leased then positive returns should develop. In 1998 Flathead became involved in a major investment opportunity. It is working to buy out the local investor-owned power company that now serves the urban part of its region. This quadrupled the number of customers served by Flathead and doubled the number of miles of line operated. Because this involved a major expansion, efforts to market ERIP slowed considerably, but resumed once the merger was completed.

The significance of the Flathead case is its strategic approach. The cooperative did not rush into development even though it could have recovered its funds faster by a direct sale. However, a concern with maintaining control over what went on the property and a willingness to make additional investments in the expectation of harvesting higher profits meant keeping the development function internal. This justified a longer period to generate profits.

#### **4. Rural Electric Cooperative—Country Living Homes**

Rural Electric Cooperative, Inc. (REC) is an electric distribution cooperative located in central Oklahoma south of Oklahoma City. It serves parts of six counties with a total population of 289,040. The corporate office is in Lindsay, a city of 2,500. The northern part of its territory lies 40 miles south of Oklahoma City with the vast majority of the area in farms and ranches. A significant oil and gas industry makes up the majority of its industrial load. Part of the six counties are served by two municipal and two investor owned companies, but the majority of the population and territory gets its power from REC. In 2000 REC had just under 10,000 accounts with three quarters of them being farm and residential customers and the other quarter industrial. However, the industrial accounts comprised 63% of total sales.

The housing venture is the fourth subsidiary developed by REC. In 1990 the cooperative created a wireless television subsidiary to provide better television service to its members. This involved building a transmitter and satellite receivers in Lindsay and installing dishes on customer homes within the service area. The venture was sold in 1994 because the cooperative received a good business offer and technology was changing fast enough that to remain competitive would have required another major investment. REC's board also felt the original objective of providing this service had been accomplished.



In 1999 the cooperative purchased an existing propane distributorship that operates as a limited liability subsidiary of REC Services, Inc. in conjunction with MFA, a major propane organization in Missouri. REC/MFA Propane is based in Lindsay and distributes propane in 3 counties, but with Lindsay as the central point in the service territory. In 1999 the cooperative also purchased an existing electrical wiring company from an individual who had decided to retire. This business has 2 full time and one part time employees and also operates as a corporate subsidiary of REC Services, Inc. Country Living Homes, established in 2000, is the fourth subsidiary of REC Services, Inc. It has also started investigating the possibility of constructing assisted living homes that would be located in small cities. To go forward with this, REC is attempting to find an experienced partner to manage and staff the facilities that REC would build.

Each subsidiary is expected to make a profit, create its own board of directors, and contract for all the services it receives from REC Services, Inc. Currently all the personnel who work for the subsidiaries are employees of REC and their services are in turn contracted to the subsidiary. REC is able to sell, lease or rent various services to its subsidiaries such as office space, accounting, supplies, etc. The primary benefit is REC's ability to provide a salary package to workers that significantly exceeds what a start-up company could afford.

REC only considers programs that help enhance the quality of life of its members. Products and services that are inadequate or are not readily available in rural areas are of interest to REC. The cooperative regularly surveys its membership to determine how satisfied they are with the cooperative and one of the questions asked is what programs or services they would like to see provided either by the cooperative or another entity. Each year the cooperative holds an off-site meeting with staff and the board of trustees to review and revise its strategic plan. At this meeting new opportunities are identified and discussed. After initial review by staff, those programs that are still interesting are analyzed by outside consultants to obtain more information. The board then determines whether to undertake the new activity. In the case of Country Living Homes, it took roughly four years from the time the board initiated housing construction discussions to the time the LLC was established.

Each new enterprise has its own business plan and is established as a free-standing subsidiary under REC Services, Inc. This provides two levels of separation between the parent cooperative and the subsidiary. The structure of each business provides a mechanism for distinguishing those activities which are member based and not-for-profit from those which are open to the entire public and expected to make a profit. Independent boards of directors provide a supervisory function that is focused on the specific enterprise.

### ***Origins of Country Living Homes***

In the early 1990s members of the cooperative began mentioning a lack of new affordable rural housing in the area. Existing builders and lenders were unwilling to either build or finance rural residences. In 1995 the National Rural Electric Cooperative Association

(NRECA) established a national task force to examine rural housing markets and the CEO of REC served as chairman of this task force. NRECA issued two reports in 1997 and 1998 that documented the widespread existence of problems in rural housing construction and finance.

This finding led REC to partner with seven other rural electric cooperatives in Oklahoma to investigate the potential for forming a jointly owned housing construction cooperative. The main impetus for this concept came from Gary Dage who was able to secure a grant from NRECA in 1998 to help organize a housing construction cooperative as a demonstration project. The initial concept would have created an entity that would have been engaged in all phases of moderate-income rural housing development and construction across the state. It would have had an embedded construction skills development program that would have trained workers as well as a property development and construction arm.

As work on the idea progressed, three significant problems appeared. The first was that an entity with the intended level of skill and capacity required large initial financial contributions by the cooperatives. The second problem was that both the state attorney general and the internal attorneys of the organizations determined in 1999 that existing Oklahoma law did not permit the cooperatives to use their member equity to form a joint housing cooperative. The third difficulty in forming the housing cooperative was the lack of proximity among the members. This meant that some of the co-ops were likely to receive a significantly lower level of benefits initially because the venture could only be located in one community while it was getting started. The eight initial co-ops were spread across the state and it was not obvious how a single firm was going to be able to meet their needs. Further there were likely to be ongoing management issues with such a geographically diverse set of owners.

This led potential participants to steadily drop away until by 1999 the original plan was no longer viable. Because both the membership and board of REC felt improving housing was a major issue for their area they continued to examine other options for forming a company. The next option they considered was to form a joint venture with a manufactured housing company that would produce houses in its factory that could then be assembled by the cooperative. However, since the costs of procuring the manufactured homes were high enough that they were not competitive with locally built wood frame construction this idea was dropped. Instead, the cooperative turned to steel framed housing as an innovative new type of rural housing. To implement the program REC formed a new limited liability corporation that was held by REC Services, Inc., the holding company for REC.

The other part of the problem, the unwillingness of lenders to finance new rural housing, has been dealt with by REC working with local lenders, including banks to show them that rural housing is a viable lending opportunity. In addition REC will provide a portion of the financing for new homes through a second mortgage at 5% interest rates. This funding is only available to cover up to 90 percent of the heating and cooling costs of the home (including duct work) and only if an electric heat pump is used.

Country Living Homes (CLH) is a wholly owned LLC subsidiary of The Rural Electric Cooperative (REC) with headquarters in Lindsay. As of June 2001, CLH had completed and sold one house, had three homes and a commercial building under construction, and was negotiating contracts to build several more homes. After one year of operation the total amount currently under contract is roughly \$400,000. The objectives of the cooperative are (1) to expand CLH so that it becomes a significant housing construction firm that specializes in constructing steel framed housing in rural areas of Oklahoma; and (2) to improve the quality of life in the communities the cooperatives serves.

The initial business strategy for CLH was to build speculative moderate-income housing in the \$85,000 - \$100,000 price range. The first CLH home was built as an infill unit in an existing subdivision in Lindsay. Recently the strategy has changed to focus on building pre-sold homes for customers in a somewhat higher price range, \$110,000 – \$130,000. This reflects customer demand and has the advantage of reducing the financial risk of the company since the home is already sold. The main market segment is individual homes on several acres of land outside the limits of incorporated places. REC sees this as an underserved market by existing builders in the region who mainly work on serviced lots within new and existing subdivisions.

CLH focuses on a specific market niche that has proved attractive to homebuyers. They build energy efficiency, metal-framed homes. These homes have the additional advantage of having greater wind resistance, being impervious to termites and are fire resistant. All of these have proven to be important selling features, as is the fact that the steel is recycled. Wood-framed homes are available when requested by the customer. CLH does not directly compete with existing builders; these builders do not build similar homes, do not generally work in rural areas, and do not use the same framing contractors. CLH acts as the general contractor for each job and employs sub-contractors to perform the various building functions. While the concrete, electrical, plumbing, roofing and drywall contractors are drawn from the residential construction industry, commercial building contractors do the framing and installation work. This has allowed CLH to avoid most conflicts with existing builders who may have resented competition from REC.

At present CLH has one employee who is charged with operating and developing the business. This individual has thirty years of construction industry experience, mostly in steel framed buildings and had operated a construction company in the region. His experience and contacts have allowed CLH to develop faster than it might have otherwise. While REC provides various back office functions for CLH, it does not have any particular construction industry experience so additional workers will soon be necessary as the volume of work grows.

The current plan is to continue to build pre-sold homes and gain more experience and visibility for CLH. During this time CLH will try to attract a stable pool of sub-contractors and build better relationships with its supply industry to better control costs. It will then attempt to follow the typical housing construction model of building multiple

units of similar design at the same time to capture size economies. CLH believes that steel framing offers additional economies because it is suitable for a construction process where framing can be done as panels at a central location and then simply assembled at the site. This allows better-cost control, construction time reduction, and a superior product.

As CLH expands it is anticipated that it will operate at greater arm's length from REC. This will entail moving employees directly onto a CLH payroll and paying wages and benefits that are consistent with the construction industry. Although REC believes that CLH can grow on the basis of retained earnings and some additional investment, it is clear that rapid growth will require additional external capital.

While it believes there is great opportunity for CLH to grow, REC has identified a number of constraints. The first is a growing shortage of competent construction workers in the region. The lack of demand has resulted in most workers being in their fifties, especially in the skilled trades such as plumbing and electrical work. Because CLH relies on subcontractors it faces difficulty in accepting contracts too far away from where these workers are located. This means that it has to identify new sub-contractors if it moves to a more distant community. In addition its opportunities to expand its volume are limited by current law. Because it is a subsidiary of a cooperative CLH can only construct multiple housing units at a site that is within the boundaries of an incorporated place. This means it cannot develop a subdivision outside the boundaries of a city. Finally, while CLH has so far managed to avoid conflicts with other home builders, as it expands it may be seen as a larger threat and trigger the same sort of animosity that electrical cooperatives have faced in other industries such as propane and cable systems.

## **5. Central Iowa Power Cooperative—Iowa Capital Corporation**

The Central Iowa Power Cooperative (CIPCO) is a generation and transmission (G & T) rural electric cooperative incorporated in the 1940s with headquarters in Cedar Rapids, Iowa. CIPCO is a wholesale power provider for 13 rural electric distribution cooperatives and one municipal distribution cooperative. These 14 distribution cooperatives are CIPCO's owners/members. In addition, 12 municipalities in the state of Iowa purchase power and energy from CIPCO. In total, CIPCO provides electrical service needs to 250,000 customers in distribution areas across central and southwestern Iowa. Most of CIPCO's energy sales are to rural customers with 49% of sales to residential and farm customers, 41% to commercial and industrial customers, and 10% to municipalities. Electrical power for CIPCO is generated in five Iowa plants; three jointly owned with other power companies and two wholly owned. Three of the power plants are coal-fired, one uses diesel fuel, and one is nuclear powered.

CIPCO maintains an active and aggressive economic development program in order to diversify their business and increase the demand for electric power in their distribution areas. CIPCO's economic development efforts consist of three principal program areas. First, CIPCO and four other G & T cooperatives finance the Iowa Area Development Group, an organization engaged primarily in the recruitment of new industries to Iowa.

In support of this effort, CIPCO also has their own economic development staff that assists their 14 member cooperatives in their efforts to attract new industry and retain and expand existing industries. (Each member cooperative also maintains an individual responsible for local economic development.)

Second, CIPCO (in partnership with local distribution cooperatives) serves as the general contractor and landlord for speculative office buildings and factories in their distribution area. For example, CIPCO and Lynn County REC own the Myriad Technology Plaza, a four-building professional complex that is fully occupied. CIPCO provides space in their speculative buildings at below market rates in order to attract new businesses to its service area.

Third, CIPCO provides capitalization and oversight of the Iowa Capital Corporation (ICC), a venture capital fund. ICC is a for-profit corporation that makes equity investments in primarily Iowa businesses.

CIPCO management noted that they might place fewer resources in economic development programs in the future due to deregulation of the industry. With deregulation, CIPCO has fewer incentives to subsidize new businesses in their distribution areas since these businesses are no longer obligated to purchase power from CIPCO distribution cooperatives.

### ***Iowa Capital Corporation (ICC)***

In the late 1980s, the Iowa farm economy experienced a severe recession. Most of CIPCO's distribution cooperatives serve rural families, thus there was a significant decline in the demand for power and consequently, CIPCO revenues at this time. The CIPCO board of directors undertook extensive discussions on how to diversify investments and reduce reliance on agriculture related markets. The board discussed the possibility of increasing expenditures to attract new businesses to CIPCO's territories. They concluded, however, that making direct investments in area businesses was not the best means by which to diversify CIPCO's business activities. Direct debt and equity investments in area businesses were discouraged because the CIPCO board of directors was not the best organization to oversee such investments. The board of directors tends to be slow (deliberate) in making decisions and the confidentiality of board discussions regarding such decisions is difficult to maintain. Thus, CIPCO elected to invest indirectly in Iowa businesses through the Iowa Capital Corporation.

ICC, located in Des Moines, Iowa, is a state-assisted, for-profit venture capital fund started in 1991. It was created as a result of state legislation passed in 1986. The purpose of this legislation was to encourage banks and other financial institutions to get more involved in venture capital activity in Iowa. The ICC, over time, became a venture capital subsidiary of one of its investors, the Central Iowa Power Cooperative (CIPCO), a generation and transmission cooperative.

In 1986, the Iowa legislature passed a large economic development package, using lottery money, as a potential stimulus to the struggling Iowa economy badly hurt by the farm crisis. One piece of this legislative package was the creation of the Business Development Finance Corporation (BDFC). The BDFC was designed to encourage bank involvement in venture capital activity within the state by providing a \$1 public match for every \$2 of private capital raised. Originally, the BDFC created one venture fund, the Venture Capital Resource Fund (VCRF). The VCRF was capitalized with \$6.65 million from Iowa banks and \$4.65 million from the state. VCRF became operational in 1998.

In 1989, another state appropriation of \$2.65 million was provided to BDFC, again requiring a 2 for 1 match. Initially, banks were approached to capitalize a new fund, ICC. Lack of interest led the founders to approach first investor owned and then rural electric utility cooperatives (RECs) in Iowa. While three RECs initially stepped up to invest in ICC, only two cooperatives, Corn Belt and CIPCO, actually made investments. The state's \$2.65 million was matched with subscriptions of \$3.3 million from CIPCO and \$2 million from Corn Belt. Fifty percent of each cooperative's subscription was required in the first six months and the remaining subscriptions could be called when needed. ICC became operational in 1991.

Private investors in ICC held a preferred stock position while the state had a common stock position. The preferred stock holders were to receive their original investment plus an annual return of 9-15% on their investment before the state would receive any return on its investment. Thus private investors, in this case the cooperatives, had a preferred position regarding any returns from ICC investments. This preferred position was important in attracting funding from the G&T cooperatives. The CIPCO board of directors, at that time, was reluctant to invest in a traditional venture fund. However, the preferred position was attractive to CIPCO directors.

Originally, Allied Merchant Banking Corporation (AMBC), a merchant banking subsidiary of Allied Insurance, a Des Moines based insurance company, managed ICC. When Allied phased out its merchant banking activities in 1993, the contract to manage ICC was transferred to Capital Management Associates (CMA), formed by two former staff at AMBC. CMA, in turn, became a subsidiary of CIPCO in 1993 as part of CIPCO's strategy to diversify its business activities.

ICC was organized as two funds: one for CIPCO and one for Corn Belt. Dual funds were necessary because CIPCO and Corn Belt had different investment goals and did not want to invest in the same deals. Corn Belt was primarily interested in investments with an economic development impact in their service area. Alternatively, CIPCO's principal objective was to make deals with a high potential internal rate of return, with the location of these deals a secondary concern. Each fund had a separate investment committee that reviewed deals and made investment recommendations. The investment committee was made up of two private sector members and one public sector member, all of whom had to be approved by the board. The 12-member board of directors consisted of seven directors who were representatives of state agencies (e. g., Department of Economic

Development, Insurance, and Banking) and five directors who represented the cooperatives.

### ***ICC Operation***

Originally, ICC expected deals to be identified by the local RECs. However, very few deals were identified this way. ICC had expected to concentrate its investments in the service territories of its investor cooperatives, primarily rural Iowa. However, there were limited deals in these areas that met venture capital standards. Most of the deals came through contacts that Allied and later CMA had within the state and from other Midwestern venture capital funds that were looking to syndicate deals. In the early years, CMA reviewed about 25-30 deals per year for ICC, a level that was not sufficient to provide good investment opportunities. As ICC broadened its investment approach to focus on deals within Iowa rather than deals only within the cooperatives' service territories, the deal flow increased to 50 per year and ICC invested in a higher percent of those deals.

In the original offering memorandum, the life of ICC was set at nine years. After nine years, the fund was to be liquidated and the investors would receive returns on their investments. In 1999, the state was interested in divestment of ICC, in spite of its success. A new Director of Economic Development in the state had identified an alternative use for the state funds. In addition, the state attorney general had changed an earlier ruling on the permissibility of the state holding equity positions in a fund like ICC. However, the state could not liquidate their investment because they were paid only after the preferred shareholders, Corn Belt and CIPCO, received their original investment plus return.

CIPCO was not interested in divestment of ICC. Given ICC's slow start, nine years was too short of a time frame to fully reap the rewards from ICC investments. Given the return on investments achieved by ICC, liquidation would have also created a significant tax liability for the cooperative. In addition, CIPCO wanted to remain involved in venture capital investing. Liquidation of the fund would eliminate the venture capital capacity created in ICC. An alternative strategy was suggested by CIPCO; they proposed to buy out the state portion of the fund. At the same time, Corn Belt opted out of ICC, leaving CIPCO as the sole investor in the fund. Both the state and Corn Belt exited ICC with more than their original investment.

The decision to buy out the state's investment in the fund was optimal for CIPCO for several reasons. The move provided CIPCO with more control over how and when the divestment in ICC would occur. Also, the burdensome paperwork and logistics created by state involvement were eliminated. And, there is no state interference in investment decisions. A decision by the president of the ICC board, a public sector member, to veto a Corn Belt investment at an earlier point in time had negatively affected the investment climate within ICC.

ICC operations have changed to some extent because of the buyout. ICC is operated as an in-house CIPCO fund. The board and investment committee members are composed of CIPCO staff and board members. ICC has taken a more strategic approach to investment decisions as well, focusing on investments within the broadly defined utility industry (e. g., businesses in the electrical power, biotechnology, telecommunications, and agriculture industries).

While CMA still looks at deals in a similar way, there is some freedom to make deals within the service area that have lower expected rates of return but promise economic development benefits. CMA still manages ICC. A 2. 25% management fee (approximately \$175,000 per year) is paid to CMA by CIPCO for fund management. CMA does not receive a share of carried interest on ICC investments. Over the life of ICC, CMA staff have reviewed 250-300 deals. One staff person estimated that ICC invests in one out of every seven deals over time. CMA provides due diligence for ICC investments.

Each business plan is given an initial review, at which time CMA can turn down a deal without input from the investment committee. This initial review allows the staff to determine whether the deal is consistent with the type of investments ICC makes. If a deal makes it through this first cut, others within CMA review the deal. If the deal is still viewed as acceptable at this point, the due diligence process of CMA begins. This process takes 90-120 days. If a deal passes due diligence, CMA passes along a positive recommendation on the investment to the investment committee. The investment committee for each fund makes the final positive or negative decision on the investment, although an applicant has the right to appeal a negative decision to ICU's board of directors.

When CMA brings a deal to the investment committee, the deal structure is already worked out. The only work left to complete on the investment is the legal document. The preferred investment instrument is equity. ICC has not borrowed funds so there is no need to structure deals with a debt component. However, debt is sometimes used as bridge funding or as part of a syndicated deal. Typically, debt with warrants is used. Although ICC does not require a seat on the portfolio company's board as a condition of investment, a representative of CMA or some other entity is on the board of 10 out of the 17 current portfolio companies. ICC provides some services to its portfolio companies, including identifying management issues and bringing in management expertise.

Since most investments have been restricted geographically, there have been few sector or stage restrictions on ICC investments. Most of the investments have been in early to middle stage companies. However, some later stage investments have been made in cases where CMA knows the company and management team. The preferred exit strategy for these investments is an public investment offering (IPO), but ICC has also had some exits via acquisitions. In identifying viable deals, CMA looks for companies that have the potential at least for an IPO.



From 1991-2000, CIPCO's fund in ICC had invested \$4,062,722 in 15 companies. The current valuation of these investments, as of December 31, 1999, was estimated at \$10,747,706. Over the same period, the Corn Belt fund invested \$625,030 in two companies. The current valuation of those investments in 1999 was \$83,760. The difference in performance of these two funds could be attributed to important differences in the investment philosophy of the two cooperatives. Corn Belt's primary motivation for involvement with ICC was concern with economic development. Corn Belt maintained a focus on doing investments that created economic development within the cooperative's service territory. As a result, only investments within that service territory were considered and brought to the investment committee. CIPCO, on the other hand, viewed involvement in ICC as a way of diversifying business activities, as a way of earning a return on investment, and as a means to promote economic development. There was an informal policy change over time and CIPCO began to emphasize rate of return over regional location of investments. As a result, CIPCO looked at more deals and was able to make investment decisions that generated greater returns on investment.

CIPCO hopes to leverage current investment successes into a larger fund that could make larger investments and rely less on other venture capital funds to find deals. CIPCO management noted that \$25 million would be a good size for ICC, but money from other sources (e. g., other G&T cooperatives and utilities) would be required to reach that size. The minimum fund size would be \$10 million.

The principal challenges to ICC in the future are that the CIPCO board may decide to become more passive once all funds are invested. Alternatively, CIPCO could lose interest in the fund and decide to liquidate ICC and use the money elsewhere within the cooperative. One danger of having ICC as a subsidiary of CIPCO is the possibility that ICC funds could be siphoned off to other parts of the parent enterprise. If the fund were being established again, a LLP or LLC structure would be preferable to the corporate structure used for ICC.

ICC would not have started without the state's matching investment and a preferred position for the REC investors. However, CIPCO executives suggest that such public-private venture capital funds need to be organized so that the management of the fund is better insulated from state/political interference. State participation in fund management, through representation on the board, was viewed as detrimental to ICC for the following reasons:

- The government representatives on the board tended to have their own agenda based on the agency they represented.
- Government representatives had expectations about the type of deals, expected returns, and timing of exits that did not result in a high expected internal rate of return.
- Government representatives favored businesses that were labor intensive and had potentially large economic development impacts.
- Public board members wanted to focus on investments that could not get funding from any other sources.

Strong public sector representation on the ICC board hampered the fund's ability to achieve a high IRR. It is important that these public sector board members have more experience in venture capital investing and that political interference and agendas are kept to a minimum.

## **6. Pee Dee Electric Cooperative**

The Pee Dee Electric Cooperative was established in 1939 to provide electricity to a six county rural region in South Carolina that was not begin served by investor-owned utilities. The six counties include Chesterfield, Darlington, Dillon, Florence, Lee, and Marion. The co-op's mission is to provide reliable electricity at low cost and superior service. The co-op distributes electricity to its 28,200 residential, commercial, and industrial member-owners at rates lower than most competitors. Industrial customers purchase approximately 40 percent of Pee Dee Electric's kilowatt-hours. Pee Dee has not raised rates since 1983 and has returned over \$21 million in capital credits to its member-owners since 1996. The co-op's mission has expanded to include encouraging economic development activities that improve the quality of life in the region and supporting education both for youth and for those seeking higher education and training.

The co-op's active involvement in regional economic development occurred under the leadership of the current president and CEO, Robert Williams. He was instrumental in bringing a large manufacturing plant, Wellman Fibers, on line in 1971 and increasing the kilowatt hours distributed by the co-op from 4.4 million in 1971 to 360 million in 2000. In the late 1980s, the co-op formed a for-profit subsidiary, Pee Dee Service Corporation, to establish a 300-acre industrial park in Marion County. The park currently includes a building developed in partnership with the county and business leaders of the city of Marion and is the residence for manufacturing operation. Pee Dee Electric also facilitated conversations between industry and local colleges (Francis Marion University and Florence-Darlington Tech) regarding training needed for prospective workers.

Pee Dee Electricom, a for-profit subsidiary of the rural electric co-op, was established to bring satellite technology for television to the region. Williams was a national leader in rural cooperatives' efforts to provide digital satellite TV to rural communities that were not served well by cable companies. Pee Dee Electricom provided DirectTV to a seven county region until the franchise was sold.

Utilizing the resources of the Cooperative Finance Corporation (CFC), Pee Dee Electricom created Commerce City, a 717-acre industrial park with 1.4 miles of frontage on I-95, the major north-south route between New York and Florida. Williams wanted to create Commerce City as a way to bring jobs to the region and improve the quality of life. There were no "shovel ready" industrial or commercial sites in the region and no one was taking the leadership role to create such sites. Consequently, Pee Dee Electricom purchased the land and obtained all permits required for building on the sites, creating "shovel ready" acreage for commercial, industrial, corporate, and retail use.

It took just under 20 months to convert the site from farmland to an industrial park. In October 1999, Pee Dee Electricom completed the closing on the property, located less than ten miles from the confines of five counties in the Pee Dee region. Infrastructure development started in early 2000. On October 26, 2001, the Governor of South Carolina participated in the cooperative's official event to dedicate Pee Dee Touchstone Energy Commerce City to the people and communities of the Pee Dee region, as their incubator for economic growth and prosperity. Cooperation with the city of Florence and the surrounding counties was essential to the creation of Commerce City. The co-op played an important role in bringing people together in a spirit of teamwork and partnership. The counties are important partners because they will be instrumental in promoting the park, bringing prospects to the site, and helping to put together incentive packages. A city-county partnership also was essential in bringing water/sewer to the site.

Currently, there is one industrial plant resident in the park. Crenlo, Inc. produces safety cabs for Caterpillar and John Deere and employs 200 people. The planned employment is 400-450. Another resident in the park is the Pee Dee Regional Water System. The city had a difficult time identifying a site for the water system that was needed to continue attracting industrial and commercial prospects to the region. Through a partnership with the city, Pee Dee is providing land and the regional water system is being built within Commerce City by the city of Florence and will be operating in May 2002. Representatives of Pee Dee Electric are currently communicating with four more potential residents of Commerce City, and the county of Florence is planning to construct an 85,000 square foot building in Commerce City.

Pee Dee Electricom is taking a cautious approach to developing Commerce City. The infrastructure investment is being phased in as required by new residents. All utilities are available to all the parcels in the park and the main roads are paved. However, connecting roads will be constructed only as parcels are sold and new residents begin construction on the site. The estimated capital investment in the site is \$750 million.

The leadership within the co-op was an important factor in creating Commerce City. Without the vision of the CEO, Williams, and the visionary members of the co-op's Board of Trustees, the co-op's involvement in economic development activities would have been different. The co-op's leadership in the region was also important to creating Commerce City and will be important future successes. The co-op worked to bring the counties and the city of Florence together to support Commerce City. Prior to this activity, words like "regionalism" and "cooperation" had negative connotations. However, the counties in the Pee Dee region have begun to realize that a business locating in Commerce City brings jobs for their residents. The co-op and Commerce City have been catalysts for other forms of regional cooperation. About 1½ years ago, nine counties created a new organization, the Northeast Alliance, to promote economic development in the region. This partnership concept also extends to the federal government. Pee Dee hosted members of Congress on tours of the park, providing a catalyst to start focusing on building infrastructure along the I-95 corridor to help distressed rural areas in South Carolina.

The structure and leadership of the cooperative were important to creating this type of economic development venture. There is no guaranteed return on the investment in Commerce City and a private, for profit entity would be unlikely to undertake such an investment.

In addition to the Marion County industrial park and Commerce City, the co-op engages in other economic development efforts. The co-op has a Vice President for Economic Development who works on more traditional industrial recruitment activities and a Vice President for Marketing who participates in trade shows and targeted mailings to promote Commerce City and the Pee Dee region. The co-op is also part of the Palmetto Economic Development Corporation, set up by the rural electric cooperatives in South Carolina to market industrial sites served by the co-ops. Palmetto is supported through membership fees charged to Santee Cooper and the rural electric co-ops, and the co-ops have representation on Palmetto's board. Santee Cooper, the principal generation and transmission cooperative for South Carolina's rural electric co-ops, has an economic development fund that the cooperatives can access to provide a match to use as an incentive for attracting businesses.

Pee Dee Electric Cooperative is dedicated to its primary activity, the delivery of reliable low cost electricity. However, once all the parcels in Commerce City are sold, Pee Dee Electricom will look for a new site to develop into an industrial park. Pee Dee will continue to work with both the South Carolina Department of Commerce and the Palmetto Economic Development Corporation to offer attractive sites and electricity rates to commercial and industrial prospects seeking to move into their region.

In addition, Pee Dee will continue to bring together companies locating in their industrial parks (in Marion County and in Commerce City) and local universities and community colleges to develop training programs for employees. For example, there is a Caterpillar associate degree program at Florence-Darlington Tech that can lead graduates to a mid-level management position in Caterpillar repair shops.

## **7. The North Coast Co-op**

The small town of Arcata is seven miles north of Eureka, Humboldt's county seat. Rugged coasts and redwood forests as well as relatively low economic prosperity characterize Humboldt County, also called the North Coast. "The North Coast... is in the economic slow lane. Household income in Humboldt County grew at about 65% the rate of California as whole from 1979 to 1998".<sup>1</sup>

Traditionally a dairy and timber-based county, dairy is still the largest agricultural industry in the county and accounts for about 1% of California's total dairy production. In the county, dairies employ about 400 people directly and provide enough raw milk to sustain four milk-processing companies.

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<sup>1</sup>*Prosperity Journal*. Humboldt County quarterly newspaper supplement. Humboldt Printing, Volume 1, Issue 1, Winter 2001. p. 1

The county is also home to a growing number of organic farms. In 1998, there were 66 registered organic growers in Humboldt County. Organic farmers and retailers estimate that production is growing at about ten percent a year. There are approximately 100 organic producers in the area. Cattle, sheep, flowers, trees, ornamental plants and timber account for the other major agricultural sectors in the county.

Located in Arcata is Humboldt State University, the northernmost campus of the University of California system, which has a large presence in the town. Arcata has a large marsh and wildlife area as well as a vibrant town plaza. The plaza serves as the town's commercial center and a focal point of local festivals.

The North Coast Cooperative, another cultural and commercial center for the town of Arcata, is located a block off the plaza. Established in 1973, North Coast is a large consumer cooperative that offers a full service grocery store and deli. The current Director was first hired 3-4 months after the cooperative was first established and has worked there at various positions ever since.

According to the Director, the co-op was started to deal with bulk purchasing and packaging issues. A number of people in the college-campus area wanted a supply of natural food products, which didn't exist. They felt they could get a cheaper, more reliable supply if they purchased together—in bulk.

Further, from the start, the co-op tried to provide a market for local produce. Arcata is located in a fairly isolated valley with no easily accessible markets; transportation costs are high. At first, the farmers provided a fairly limited variety, mostly tomatoes, sweet corn, zucchini and other common garden vegetables. But, the co-op has always tried hard to maintain an open-door policy with local farmers.

To motivate farmers to produce new and different varieties, the co-op uses purchasing contracts, which act as a type of insurance. Some farmers have also needed training on production and marketing.

Today, North Coast Co-op is the largest purchaser and retailer of local organic produce in the area. "In 1998, the co-op's wholesale purchases from local organic growers were close to \$300,000".<sup>2</sup> By providing a consistent market since its establishment, the co-op is credited with playing a key role in helping local organic farms survive and flourish. Not only does the co-op sell locally grown produce in its own store, but its Wholefood Express trucking service ships produce to the Bay Area. The trucking service provides an essential service to small producers with small loads. According to the manager of the trucking service, "Nobody's a big enough grower to ship truckloads, and less-than-truckload service is a hard one".<sup>3</sup>

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<sup>2</sup> *Food, Fiber, and Flowers*. A Special Report on Agriculture in Humboldt County. Eureka, CA: Humboldt County Farm Bureau, Spring 2000. p. 4

<sup>3</sup> *Food, Fiber, and Flowers*, p. 6

The co-op also provides a market for locally raised beef. It created the *Co-op Beef* brand to sell pasture-raised beef that has never been treated with any antibiotics, steroids, or hormones. Because of the size of their demand, they contract with a large local ranch operation and buy from the Humboldt Auction Yard.

In terms of dairy, the co-op has had strong ties with the local creamy cooperative (established in the 1920s) over the last ten years. The creamery produces, among other things, high-end ice cream, which the co-op markets.

According to the Director, the success of the co-op has motivated other local stores and local branches of national chains to buy locally as well. Otherwise, the co-op would capture the entire market of consumers demanding local produce, which is apparently quite large. Once the cooperative identified and developed the demand for these products other firms realized there was a viable market. As a result the cooperative has had to make major changes in its operations to remain competitive. The changes included expanding the types of products it sells and opening another location to reach a broader share of the market.

The membership fee for North Coast consists of \$25 on joining and then each member has their 2% rebate on purchases applied to B stock until \$200 of stock is purchased. To garner further investment dollars, the cooperative offers class “C” investment shares to members who hold a membership share (class “A”) and thirty class “B” investment shares (\$300). The co-op pays 7% dividend on all class “C” investment shares, which can be purchased for \$10 a piece. While the cooperative has a large membership, very few of them are active in the organization. The manager indicated he believed that while most members valued the idea of being part of a cooperative their lives were too complicated for them to be greatly engaged in its operations. To help foster the sense of belonging, the cooperative regularly polls its members on what it should be doing, especially in terms of supporting the community. In order to build the sense of community, members are allowed to allocate their patronage refunds at the cash register to a specific local organization.

In addition to providing essential agricultural markets and thereby helping local farmers survive, the co-op has had other impacts on its community. According to a staff member of the Arcata Economic Development Corporation, one who is not a big fan of the cooperative form of business, North Coast “is the most successful model I know of. It is viewed very positively in the community.”

The co-op operates a foundation—The Co-op Community Foundation (CCF)—that donates money to a wide variety of community organizations and causes, including high school scholarships (students enter by writing essays about cooperatives). CCF was established in 1990 with the mission “to ensure that generous community support is sustained through the ups and downs of the grocery business.” Its endowment has grown from \$1,000 in 1990 to over \$657,000 in 2001 (*Commitment to our Community*).

Co-op members can donate by sending funds directly to CCF, by donating their 2% cash discount at the register when purchasing groceries, and/or by signing over their quarterly patronage dividends to the CCF. Since the co-op pays for the administration of the Foundation, 100% of every donated dollar goes directly back to the community.

CCF gives grants to an average of 80-plus non-profit groups per year. Throughout the year, members are surveyed at the co-op's register regarding groups and "themes" (e.g., women and children) they would like the Foundation to support. Further, non-profit groups can join the co-op and obtain a single member number for use by all of its own members. The patronage of non-profits influences the funding decisions for these groups (i.e., non-profits with high levels of co-op purchases under their number receive priority in funding decisions). Final decisions on funding are determined by the volunteer Gifting Committee, made up of co-op members.

In addition to grants, CCF and the co-op support various community projects through in-kind contributions. For instance, members and staff are helping on fundraising events to develop a community land trust for a threatened vernal pool (McKinleyville Vernal Pool Project). They also support and help out with local runs and other community events. The co-op, the CCF, and members have given back over \$1 million to the community since 1973.

The co-op has also helped spawn low-to-moderate income cooperative housing, the River Community Home. The Home is located in a wetlands area and is fairly well known in the area. It was founded by leaders of the North Coast Co-op. Since Arcata is a relatively poor area, this type of housing is in high demand.

Other co-op members have gone on to create an art cooperative, a very successful janitorial services cooperative (employee owned), and a tofu cooperative.

When asked whether he thought the North Coast Co-op success could be replicated, the Director said not in centrally located areas. In his mind, the success of the co-op depends in part on its geographic location—the isolated agriculture of the Arcata valley. It may also have to do with the culture of the area. According to a staff member of the Arcata Economic Development Corporation—a person who has lived in the area over 40-years—Arcata is “hippy heaven with some money; a Boulder, Colorado of the West.” The Director feels the co-op thrives because of this culture. “It employs the kind of people who migrate here, those who want to work in a place that fits their ideals and that doesn’t make them work too hard.”

The co-op has a local brand that is easily recognized and has a high profile locally. This type of recognition and brand loyalty seems to have resulted from the co-op's long history and success in Arcata. A factor in the cooperative's success was its willingness to innovate as conditions changed. As it developed from a bulk foods packaging organization to a broader provider of foods it had to attract a more diverse set of customers and alter the way it operated. In particular, once it reached a point where it

was in direct competition with other food retailers, including national chains, it had to adopt similar facilities and strategies.

## **8. Foodworks Culinary Center**

The Arcata Economic Development Corporation (AEDC) serves Humboldt, Del Norte, Mendocino, Siskiyou, Trinity, and Lake Counties. AEDC was incorporated as a private, non-profit corporation in 1978. In addition to a variety of loan and technical assistance programs aimed at small business development, AEDC operates the Foodworks Culinary Center, a kitchen incubator program. The Center is a large building equipped with fifteen FDA certified kitchens and a large, shared storage area. Each kitchen can be rented by a new business at subsidized rates. One kitchen area serves as a shared community kitchen, which can be rented by the hour or the day. According to the building manager, this is well-used by local churches and community organizations for fund-raising events as well as some very small companies that only need a kitchen periodically to make their products (e.g., a small jams and jelly operation). The Center also offers shipping, receiving, and clerical services for hire. Access to a commercial kitchen is critical for firms that want to sell food products because you need to meet cleanliness standards to be allowed to participate in commercial market channels.

This Center was first established as a cooperative. In 1989 an economic development study found that the best replacement for lost timber and fishery industry income was specialty food manufacturing. However, there was no commercial kitchen space available in the area. AEDC's executive director at the time had some background in cooperatives and wanted to establish a kitchen incubator cooperative.

With federal and local grants, as well as land donated by the city, AEDC was able to build a \$1 million facility. It received a lot of attention as an innovative economic development idea and had many articles written about it. The intent of the seven entrepreneurs who started the cooperative was to work together to grow their own business and then collectively take-over the incubator in five years. A major part of the strategy was to take advantage of economies of scale, purchasing, marketing, and distributing products as a group.

This never happened. According to the current facility manager, the firms had a hard enough time to run their own businesses let alone the larger cooperative. In addition the reality of food marketing is that there are multiple distribution systems that only deal with certain types of products so the scale effects they were counting on were not attainable. After five years, nobody wanted to take over the cooperative. However virtually all the firms in the building were financially successful as individual enterprises, in part because they had received a high level of support from the incubator.

After seven years, Foodworks was reconstructed into a graduating incubator and was no longer a cooperative. From that time on, the businesses that start in the Foodworks' kitchens are supposed to graduate into their own space after three years. The manager, helps enforce this rule. They can renew after three years only if they are making progress



in their business. In addition firms now pay rental rates that are more consistent with actual costs and market rates for comparable space in the community.

In terms of economic development impact, Foodworks has had mixed results. On the positive side, it has launched 11 or 12 businesses, which currently employ numerous individuals. Only two graduated businesses have failed and only two have left the area. Further, it still offers an important beginning to nascent businesses. It currently houses eleven food-based companies (60-70 employees), including organic farm product delivery, catering and homemade ice cream production. Some of these companies have been there since the beginning of Foodworks (8 or 10 years). All of the available kitchens are currently being used. In addition to the eleven incubator businesses and one shared kitchen, space is rented to three other businesses. But, as the manager noted, at what cost? Interestingly as rental rates are being moved up to reflect market prices several of the firms that have been in the facility since its inception are now constructing their own facilities or moving to other locations.

The current manager believes Foodworks just isn't sustainable. It is too large, with too much dependency on outside sources of funding. "The building doesn't carry itself. It was never run as a business. You need to keep an eye on business." As he said, unfortunately the concept of sustainability was not incorporated into economic development plans ten years ago. Indeed, the Foodworks Center is currently up for sale and the leases of its occupants may or may not be continued, depending on new ownership. AEDC will get out of the incubator business once it is sold.

Why did Foodworks fail? The original cooperative structure and the failure to run the Center as a business seem to be key factors. According to the manager, "The socialist idea of the co-op sold well, but getting entrepreneurs to work cooperatively together is difficult. They will leave as soon as it doesn't serve them." A problem with an incubator cooperative is that businesses mature at different times. Businesses ready to leave may have a difficult time rationalizing further investment in the cooperative. Also, some businesses went out and found their own markets and then didn't want to share those with other co-op members. Further, most businesses associate with their product-line and thus can feel that they have nothing in common with businesses that produce alternative products (e.g., a cookie and a hardware company).

In addition, the facility was constructed to operate in a way that was inconsistent with the food distribution system. It has a large warehouse space that was built to allow consolidation of product from businesses both inside and outside the incubator in the expectation that joint marketing and distribution would be a major function. However this belief was inconsistent with industry practice so the warehouse space is underutilized and is a drag on operations. This points out the importance of understanding marketing channels prior to making major investments in facilities

Sharing resources equitably was another problem. For example, the building was built with a single water line and meter; each business was charged the same monthly rate even though some businesses, such as the tofu company, used significantly more water

than the others. Today the building has separate lines to each kitchen. It was also difficult to convince the members to hire a shared cooperative marketing manager, since some businesses would use the position more than others would.

The manager has heard that the cooperative was also started poorly, with no regular meetings and a lack of communication. Personality conflicts were a problem early on. The businesses didn't work well cooperatively.

As the lengthy stay of some companies attest, Foodworks has failed in the past "to push people out in time," another major problem. A Foodworks manager position has not always existed, which meant the AEDC Board essentially governed it.

Although the manager recognizes the success of the North Coast Cooperative (see preceding case), he could not think of any other co-ops in the area, and would not recommend it as a model. "Folks in cooperatives have very narrow vision and beliefs about stuff. You mix social with economic and political when you deal with co-ops and you need to be focused on the bottom-line instead." He noted that the cooperative model is brought up all the time as a possible model, but added, "You attract a different mind-set when you say cooperative."

## **9. Northcoast Artists**

Northcoast Artists is a cooperative gallery located in Fort Bragg, California in Mendocino County. Mendocino is a coastal county that borders wine country (Sonoma County) in the South and Redwood forests (Humboldt County) to the North. The terrain in Mendocino County includes coastline, vineyard-covered hills, redwood forests and mountains. It is connected to major urban areas by Highway 101 (California's major interior north-south route) and coastal Highway 1. Only two hours from San Francisco, it is a popular destination for tourists and artists.

Fort Bragg (population 6,500), the largest city on Mendocino's coast, is located roughly in the middle of the county. Fort Bragg was established as a military outpost in charge of the Mendocino Indian Reservation, although the fort was short lived (10 years). Although it clearly shares some of the tourism of its more popular and picturesque neighbor, the town of Mendocino, it has more of an industry than tourism based economy. Timber, fishing, government, hospitality and retail services are the primary sources of income. Georgia Pacific maintains a large lumber mill in the center of town, which employs 240 people. "The 111-year-old sawmill, historically the basis of the city's existence, is one of the oldest operating sawmills in the nation".<sup>4</sup>

As stated in their bylaws, the purpose of Northcoast is straightforward: "to promote the arts in our community. A gallery space shall be provided for local artists, offering art-related activities and interchange of ideas between artists and public." It has maintained the same gallery space, a storefront along Main Street/Highway 1 in Fort Bragg, since inception. It has also maintained a fairly constant number of members—twenty.

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<sup>4</sup> Chamber of Commerce. "The Fort Bragg-Mendocino Coast... A Home by the Sea." Fact Sheet. p. 1.

A small group of artists, who wanted to create a showroom and retail space for locally made art, established Northcoast in 1986. According to a founding member in another art cooperative, there were numerous federal grants for artists “floating around” in that time period. Artists banded together in a collective effort to help get their art to buyers. Several other art co-ops still exist in the area, although not in Fort Bragg (Healy knew of 2 others—one in Mendocino and one in Sonoma); others have failed. Some artists share gallery space, but they are not a cooperative (e.g., Mendocino Art Center). In the beginning, the co-op may have relied on state or national co-op development services, but no longer. One of the major incentives for starting the cooperative was the desire to obtain a larger share of the retail price for the artists involved. Galleries in the area typically require 50% of the sales price as their share before they will accept an artists work.

Each member receives an equitable portion of gallery space (wall and floor space is divided into twenty equal portions) as well as a rotating monthly gallery showing. Each artist has a showing about every two to three years. In return, they are required to staff the gallery for eight hours each month, attend monthly co-op meetings, and serve on committees. As a result of this membership involvement, the gallery does not hire any staff or managers (i.e., it is run as a collective). Members can sell their work at other places, although they are required to show some at the gallery—unless they are on leave.

There is currently a waiting list for membership. Members can take a leave of absence without forfeiting membership. Instead, guest members replace them. Only about one or two members quit each year, mostly because they leave the area. According to a founding member, very few leave to start their own gallery. An incentive to stay in the cooperative is low gallery fees – 10% of proceeds plus a monthly fee of \$55 to cover operating expenses. Healy also noted that she remains a member because she likes working with others and learning the business-side of things.

Candidates for new membership must submit an application. The pre-screening committee (3 members) ranks them and brings the highest-ranking applications before the full membership. The applicant must receive a majority vote before he or she can become a member. The only other membership requirements are that they have to be a local artist. In general the co-op only approves artists with high quality and diverse artwork who are willing to sell in the general price range of other members. According to a member, they try to eliminate random work that doesn’t fit well with established member work. However, the co-op has a wide variety of members creating art in different mediums.

Each new member pays a one-time fee of \$200 (returning members are not required to pay this a second time). Monthly dues and the gallery share of sales cover rent, utilities, and costs associated with monthly gallery openings (PR work and beverages). The sales revenue is put into a general fund to cover major expenses, such as gallery renovation and maintenance. Excess money is held by the cooperative and used for gallery improvements; it does not return patronage dividends to members. The cooperative has

rented the same space since its inception and this has provided the artists with a highly visible location and has encouraged investments in improving the facility. The only training members receive is “behind the desk” training for their rotation at the gallery. There is no education about the cooperative model.

According to the members, this co-op works primarily because of excellent communication among members. Some members have been involved in other co-ops that fail because of personality conflicts. The monthly-required meetings mean that “every problem gets out in the open and discussed,” one member said. Another member believes that for co-ops to be successful “everyone needs to feel part of the co-op and feel that they are heard; that happens here.” So far the co-op has avoided any factions. Restricting the size of the cooperative to 20 members and ensuring that all members are producing work that is of uniform quality and at roughly the same price point also helps to keep the cooperative viable.

The co-op is also very well run. As one member noted, all the rules and operations have been well thought out. There is no leadership, but all members take an active role. One member is responsible for front desk gallery supplies, another is in charge of organizing the calendar that determines when members work, etc.

Another factor in the success of the co-op is the area. People in the Fort Bragg area are, as a member put it, “into the idea of communality and not just economics.” The co-op has also been lucky: a good landlord makes it possible for them to maintain their gallery space. A consistent location over the past 16 years has certainly helped the co-op with marketing. The members know of other co-ops that have lost their building and then failed to survive.

The members feel like the cooperative is definitely part of the community, although most live elsewhere. The first Friday of every month, the gallery takes part in Fort Bragg’s gallery hop. This, however, is a recent phenomenon. For a long time the cooperative and the community did not have any formal links. When the Chamber of Commerce started the gallery hop, the cooperative initially participated in the event but was not a Chamber member. It has recently joined the Chamber and is more directly involved in Chamber efforts to promote art sales. It doesn’t work with other art co-ops or other galleries.

## **10. Rural Wisconsin Health Cooperative**

Rural Wisconsin Health Cooperative (RWHC) was established in 1979 in an effort to help relatively small rural hospitals in south central Wisconsin work together. It was one of the earliest models of cooperation among rural hospitals in the US. According to the Executive Director, “RWHC serves as a catalyst for regional collaboration and as an aggressive, creative force on behalf of rural communities and rural health.”<sup>5</sup> RWHC offices are located in Sauk City, Wisconsin.

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<sup>5</sup> *Rural Wisconsin Health Cooperative (RWHC) Directory*. Sauk City, WI: RWHC, 2001. p. i.

In the late 1970's the University of Wisconsin hospital outreach program surveyed rural hospitals regarding their needs and possible University support. The hospitals' primary issue was their difficulty in recruiting staff to their small towns and finding sufficient part-time help (they were too small to hire many full-time employees). After the cooperative was created, but before it had hired its first staff, a regional health planning agency examined the status of hospitals in Southern Wisconsin and recommended that most rural hospitals should either close or consolidate.

The RWHC was created with the following mission: to help rural hospitals share services, especially staffing. It quickly discovered a second mission: to act as a general advocate for rural health care issues at both the state and national levels. The cooperative hired an Executive Director, a person who had helped organize RWHC as part of his outreach role at the University of Wisconsin Hospitals and Clinics. He continues as the RWHC Executive Director.

When RWHC was being established, other organizational models were considered, especially the non-profit model. However, according to the Executive Director, the founders thought the co-op would be seen as a more collective approach with more direct ownership ties between the hospitals and RWHC. "It is an easily recognizable model for collaboration in this area; many of the members and founders were already familiar with the model."

The initial challenges to establishing RWHC included finding sufficient funds. According to the Executive Director, they didn't pursue grants in the early years because "they didn't want to prostitute themselves. They wanted to choose their own path." Also, there was no arena for rural health care policy. Rural health care was not distinguished from health care in general. Once RWHC was established, however, it grew quickly, which created its own set of challenges.

RWHC currently has 28 full-member hospitals, representing as many rural towns in south central Wisconsin, and 3 affiliated members (non-voting, they pay half-dues; they include the University of Wisconsin). The number of members continues to grow, with very few losses. Membership is open to any rural hospital in Wisconsin and the Board has made a recent decision to actively expand membership. Most new members represent smaller rural hospitals farther out in the state (e.g., northern Wisconsin). Nobody has ever been turned down for membership.

Each member hospital has one representative, usually the hospital administrator, on the board of directors. The board meets monthly. Meetings include enough time to provide administrators with an opportunity to share their concerns, problems, and new ideas. The Executive Director commented that the Board meetings were essentially like group therapy and that he especially enjoyed them. It was also a "good excuse to meet regularly with his clients." There is on average 60-70% attendance by members, which is high when compared to most cooperative membership meetings (especially since they are monthly rather than annually). RWHC also communicates with its members through regular e-mails and a monthly newsletter (*Eye on Health*) that includes excerpts from

relevant studies and books. It is also discussing creating sub-networks to better include hospitals far away.

According to the Executive Director, the Board rarely votes (he doesn't have a vote). "It's irrelevant; everything is done by consensus." The Board apparently has a culture that is respectful of disagreement. The Executive Director notes that the group has been fortunate in that the turnover has generally been steady and new member CEOs have been successfully integrated into the group. The relative homogeneity of the group has also been helpful. There are a few competing health care systems (umbrella systems) represented by the hospital members, but "they largely keep it [their competition] out of the room."

The Executive Director also notes that it is very clear whom he works for; i.e., the board, and they make the final call on all issues. In general the co-op first presents potential products and ideas to the board and waits for approval. The ideas and products are often in reaction to hospital staff input; hospital administrators are frequently surveyed. Over the years, the Executive Director could only think of two times in which he didn't do what the board wanted him to do. However, he says that he is not passive and challenges them. The board also participates in an annual formal strategic planning process.

Each member hospital pays \$9,000 in annual dues plus any additional service fees; RWHC offers a variety of services to member hospitals. The co-op also offers these services to non-members across the nation, although members receive better prices. Approximately 65% of the co-op's revenues come from its staffing services, making it the biggest single revenue source for the co-op. Everything with the members is done by individual contract. Occasionally the co-op also receives a grant, although it is primarily funded by the annual dues. However, over the years it has received \$2-3 million in grants. The co-op currently has a \$5 million budget and holds some unallocated equity.

The cooperative's mission remains the same, although its products and services have changed in response to the diverse and continually changing needs of its members. The co-op is well known nationally as a rural health care advocate. However, only its Executive Director has formal responsibility for advocacy and only a very small portion of the budget (less than 1%) is allocated for these duties. He serves on lots of boards and is a registered lobbyist. He maintains a strong network; his state and national connections were considered one of his strongest assets in interviews with members.

The Executive Director commented that although it may seem irrational for the board to support national advocacy efforts, they believe they can make a difference in health care policy and have a sense of pride in their co-op making an impact beyond their borders. According to one member, "everyone thinks of [the Executive Director's] work [as advocate] as very important." The members also feel that his connections and timely information contribute a lot of value to RWHC. "He provides better information than other Hospital Associations because of his rural focus and advocacy."

The co-op still offers important services that member hospitals would have difficulty providing or obtaining at similar quality and cost. Although staffing is less of an issue, most members are large enough now to hire full-time help, the co-op provides other essential needs. For example, it provides credential verification services for physicians and other licensed practitioners. Therefore, when a member hospital hires a new doctor, for example, the co-op provides the necessary verification, not the hospital. The staff time and positions the hospital would have to devote to this task would be costly.

As another example, the RWHC Network, a separate corporation, was established in 1997. The Network acts as a general negotiator on the behalf of member hospitals. It negotiates contract terms with insurance companies, managed care plans and employers. The goal is to achieve more favorable rates and terms for the hospitals than they could get acting on their own behalf. Member hospitals are not obligated to use the Network.

Additional services provided by the Co-op include the handling of reimbursement claims, performance measurement, patient surveys, equipment management, hospital employee health insurance, and financial and legal services. The Co-op currently employs approximately 20 people at its offices.

RWHC also sponsors and organizes “roundtable” sessions for its member hospitals. As one member claims, these are a “non-competitive, collegial way to share information and brainstorm.” The hospitals can send representatives to these sessions for a small fee.

According to the Executive Director, the future of the co-op is in data and information collection rather than staffing, although solutions to workforce problems in general will continue to be in demand.

RWHC certainly plays a key role in promoting rural health care policy, at both the state and national levels. It has also definitely made a positive impact on the situation of rural hospitals in south central Wisconsin by providing them with important services and a networking vehicle. It has also helped keep some services (and therefore income) in the community. Recently, RWHC helped some member hospitals keep their lab work analysis from being outsourced to another region, a plan put forth by a larger hospital system.

Interestingly, when RWHC was first established the connection between rural health care and rural development was essentially ignored. As the Executive Director commented, traditionally rural health care has only been viewed as a component of business retention and expansion (i.e., the number and quality of hospitals). Today the connection is more widely recognized.<sup>6</sup>

When asked about RWHC’s impact on rural development, the county economic development director replied that “they were lucky to have RWHC in their area.” It has created more cooperation rather than competition among rural hospitals. RWHC has also

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<sup>6</sup> Myers, Wayne. *Medicare Reform: A Rural Perspective*. Report to the Secretary US Department of Health and Human Services, May 2001.

had a very positive impact on development in the area: it has helped attract other businesses to the area; the Executive Director has been instrumental in helping out various development projects, utilizing his great network.

RWHC has been largely successful in achieving its mission and its members seem happy with its services. As one member commented, “The co-op gives the biggest bang for the buck; it would be the last service my hospital would drop.” Another member surveyed hospital staff and found them “relatively satisfied.” It was noted that as that hospital has become larger, it doesn’t need to depend on the co-op as much; there is in fact some duplication of services with RWHC.

Thus, there is a life cycle element to this co-op. Some members outgrow its services. As this same member noted, “this is the rub with the co-op; it has to serve a membership representing diverse hospital sizes. The smaller ones need more help.” As a result, RWHC has to maintain flexibility in its products and services across time.

Rural hospitals in northern Minnesota are now trying to replicate their model. Unfortunately, another effort has failed. Interestingly, although the Executive Director is an advocate of collaboration in rural areas, he finds “the larger co-op movement’s conservative exploration of alternative models tedious.” He is not a proponent of the cooperative model as the single best way to incorporate for collaborative purposes. While he considers collaboration to be at the core of RWHC, he does not believe that the success of RWHC hinges on the fact that it is organized as a “sub-chapter T cooperative.” “It is inconceivable that it would not be a co-op, yet it doesn’t really matter what the framework is on paper.”

Whereas in the past, the Executive Director felt that under-capitalization was the greatest challenge to co-op operations, he currently doesn’t feel the cooperative faces any serious constraints. He noted, however, that the organization was becoming more complex, “like a hairball,” and working within those systems was challenging.

Certainly a challenge in the future (the next decade or so) will be replacing the experienced Executive Director when he retires. When the time comes, RWHC will work on finding a long-term solution that will ensure it remains a strong, viable co-op. According to the Executive Director, “RWHC is not a house of cards; it is a strong and stable organization that should withstand changes in leadership.” Perhaps, but as one member noted, “it may struggle a bit.” Even the Executive Director acknowledges that there is vulnerability on the advocacy efforts of RWHC. He is not currently grooming anyone else to take over his duties on that front, and indeed, it would be difficult to find someone with his connections.

## **11. Garrett Rural Information Cooperative**

In the last ten years one of the pressing issues for smaller rural communities in the United States has been providing firms, households and public institutions with access to the Internet. This problem has spawned a large literature and a growing public policy



discussion over what has been termed the “Digital Divide.” Smaller places have been less attractive to large regional and national Internet service providers because the potential revenue stream in smaller places is not large enough to meet their target rates of return. This has left local firms to meet the needs of these areas. Even in places where local providers are found they are often poorly capitalized and are unable to offer high-speed access or extend their network very far into the community. The Garrett Rural Information Cooperative (GRIC) is an innovative use of the cooperative model that has provided a small community in western Maryland with affordable high-speed access for almost a decade.

Garrett County is located in Northwest Maryland in the panhandle region, approximately 3.5 hours from Baltimore and Washington, D.C. and 2.5 hours from Pittsburgh. It is a remote county with limited road access and rugged terrain. The county population in 2000 was about 29,000, approximately 11,000 households. The large size of the county and small population makes it the least densely populated part of Maryland. Mountain Lake Park is the largest city and has a population of 2,500. Similarly, Garrett Community College (GCC), located in Mountain Lake Park, is the smallest unit in the Maryland Community College system with an enrolment of just under 700 students. Three locally owned cable companies provided basic cable services in the county and telephone service was provided by Bell Atlantic, now Verizon.

The idea for GRIC came from members of the Garrett Community College in 1992. They recognized that computer based information systems had the potential to rapidly change business education and society in both urban and rural areas. At the time the only access to the Internet was through long distance dial-up service that was both slow and expensive. The College was interested in upgrading the Internet capacity of the college, to provide computer-based education. Initial efforts to develop a strategy came from the President of GCC and the Director of Information Technology (IT), who had considerable prior experience setting up information systems. The GCC computer science faculty supported their efforts.

The GCC group recognized that while it might be possible to improve technology within the College there would be only limited impact if there was no demand from outside the College in the community. Further the college alone could not provide sufficient critical mass to establish a viable structure. Because Garrett County was not connected to the Internet and few individuals or firms had any appreciation for the uses of the Internet there was no real demand in the community. To get the community to invest in the underlying infrastructure it was necessary to persuade community residents that the Internet would be valuable to local firms and residents. To do this the GCC President and the IT Director undertook a series of promotional talks throughout the community/county to try to persuade people of the benefits of establishing local access to the Internet. While there was some interest, the residential and commercial value of the Internet had not yet been fully established nationally and there were few in the region with the background to recognize the potential benefits for a rural area. At the time, the local cable companies had no interest in expanding their services to include telecommunications.

Despite the lack of interest, the key people believed that it was important to press ahead. They feared that to do otherwise would lead to a digital divide where higher income, higher density urban areas would be served first by corporate providers and rural areas would always lag in access to technology. Telecommunications infrastructure is expensive and has a short useful life. Owners of internet service providers (ISPs) maximize returns by focusing on urban areas and provide rural areas with older generation equipment; this leaves rural places perpetually disadvantaged.

The leadership group at GCC believed that the only way to surmount this was to develop a local provider that had sufficient financial resources to make an investment in state of the art technology and to maintain that technology by constant upgrades. This required that the organization be self-funding, because while it may have been possible to provide the initial technology through grants, the grant process could not assure that ongoing investments to maintain the quality of the equipment would be made. From a different perspective, a consequence of the necessity for self-financing was that sufficient demand had to exist to provide an adequate revenue base.

The GCC group started looking for models that would allow a locally based firm to be established and operate on an ongoing basis. Because many of the people involved in the group had farm backgrounds they saw agricultural and rural electric cooperatives as providing a model structure that was locally based, allowed pooling of resources and was self-financing. Their goal became to create a telecommunications cooperative that could function as a private business and serve the public good.

The College recognized that although it had an understanding of what it wanted from the telecommunications venture, the community did not. However, the existing technology was flexible enough that it was possible to design a system that could handle most potential uses. The problem was developing an organizational structure with the same degree of flexibility. To initiate services, GCC established the Garrett Rural Information Cooperative in the mid-1990s as a part of the college, but with a separate advisory committee. To build local interest the College pledged that all funds that came into GRIC would only be used to develop GRIC and not for other purposes. The College provided all the facilities and personnel for the organization as a voluntary contribution.

Initially the system was structure around a connection to the local Bell Atlantic switch with router and modern facilities installed at GCC. Initial system design work was provided by GCC. Bell Atlantic agreed to provide upgraded service for the college to facilitate the establishment of GRIC. Two hundred users were attracted from off-campus as volunteer pilot participants. Initial subscriber reaction was positive and GRIC began to sell its services. Initial charges were a \$10 annual membership fee and a monthly service fee of \$9.95 per month for unlimited use.

After 10 months of operation and having achieved a subscriber base of 400 accounts, GRIC was able to obtain funds from the state of Maryland to help it expand. The Governor's office provided \$90,000 and promised \$100,000 more a year later. GRIC

began to hire its own staff, although management and support services were still provided by GCC. More subscribers required a major capital investment. GRIC worked with technology providers to design a new system and was able to arrange \$600,000 in financing from GE Capital to purchase the new system. The financing was structured as a non-recourse lease-purchase agreement to protect GCC from possible exposure.

The subscriber base increased quickly to 2,000 accounts by 1998. At that time other ISPs began operating in Garrett County. These new firms argued that GCC was unfairly subsidizing GRIC and were able to block the \$100,000 in promised funding from the Governor's office. GRIC continued to expand but the combination of increased size and criticism from other ISPs made it clear that GRIC had to have a clear separation from GCC.

In January 1998, GRIC became a distinct entity with its own independent board and own staff. The organization was structured as a 501c-12 telecommunications utility organized as a cooperative. The 501c-12 status allowed GRIC to provide any form of telecommunications services making it a broad based utility and not just an ISP. GCC started charging GRIC rent and GRIC had to cover all of GCC's financing commitments. GRIC investigated financing from RUS and the National Bank for Cooperatives but was turned down. At its peak, GRIC had 4,000 customers. Rapid growth led to problems in maintaining services and in managing billing, which affected cash flow. As costs increased, GRIC raised its monthly fees and lost customers to other ISPs. In 1999 GRIC had to renegotiate its financing with GE Capital because it was unable to make its payments. GE Capital left the equipment in GCC because it had become obsolete and significantly lowered the payments GRIC had to make.

Although its costs have stabilized GRIC does not have a certain future. It will have to improve its technology to remain competitive and has no obvious source of funds. GRIC is still the largest ISP in Garrett County (2,700 customers), but it faces challenges from other ISPs, especially national firms. GRIC is popular with local residents and local elected officials who use GRIC to provide county government Internet connections, and it has been responsive to the needs of local businesses for improved services, but in many cases there is insufficient demand for upgrades that cannot be provided.

GCC has clearly benefited from its involvement with GRIC. It has far better technology than it would otherwise possess. It has established a demand for computer and telecommunications classes and is able to place graduates in these areas. Garrett County also has better telecommunication capacity than it would have without GRIC. GRIC provides a broader spectrum of services than do other ISPs allowing users access to services that they otherwise could not get. GRIC also provides service in parts of the county that other ISPs might not cover.

GRIC is an example of an enterprise that is organized as a cooperative, but has little member affiliation other than the annual member fees. It is also an example of a situation where local collective action was used to provide an important economic development function in advance of when market forces were prepared to act. However, changing

technology and the normal geographic diffusion process may have caught up to Garrett County and the lack of a strong local commitment to GRIC and potential competition from better-capitalized ISPs is causing difficulties for the cooperative.

While the cooperative structure made it easier for the community college to spin off the activity, the current leadership has to deal with a number of significant problems. The first is an issue of governance. Neither GRIC staff nor most board members have any real understanding of cooperatives and no training programs are in place to help develop that capacity. This has contributed to limited oversight of the business by the board, which plays a mainly ceremonial and public relations function. Pricing services has also been a problem. There has been a reluctance to differentiate charges on the basis of cost of service, in part because GRIC was founded to ensure services were available in a low-income area, and in part because of a belief that a cooperative can only charge a single price. Finally, the enterprise faces significant problems in generating adequate finance. It has as much, and perhaps more, debt than can be managed. This means that any additional funds will have to come from equity contributions, but the members are not prepared to make a capital infusion and the cooperative structure makes it hard to attract external equity.

The GRIC experience demonstrates the problems associated with bringing new technology to small rural markets. There are few people in the region who understand the technology and how to implement it and it is a hard sell to attract a large enough customer base to provide adequate cash flow for the business. Most importantly, in an industry subject to rapid technological change it is important to recover capital costs quickly before the equipment becomes obsolete. Otherwise there is no money to make second round investments to upgrade technology. In the GRIC case, when they were unable to meet their payment obligations to GE Capital, the equipment had depreciated so much that it was not worth repossessing.

Despite the shortcomings that have developed in recent years it is clear that Garrett Community College provided a useful development function for the community when it created GRIC. The original advocates had a vision of the importance of the Internet to rural areas that was considerably ahead of its time. Their advocacy and their willingness to use GCC as a change agency provided Garrett County with better connections to the Internet than many more urbanized places. This has helped attract several new businesses that are significant employers and has made the area more attractive for small businesses that can serve clients in Pittsburgh and Washington DC from a distance.

## **12. Salmon Trollers Marketing Association**

The Salmon Trollers Marketing Association (STMA) is located in Fort Bragg, California. Noyo Harbor is located at the southern end of Fort Bragg. A working harbor, it contains a fleet of troller and trawler boats (capacity is 320 boats), fish markets, and two processing plants/fish companies. It is the largest port between San Francisco and Eureka. All of the boats are private and owned by independent companies. The plants process seasonal catches of salmon, bottom fish, crab, sea urchin and albacore.

Trolling, which uses lines, is used almost exclusively to catch salmon. Trawling, which uses nets, is used for catching most other fish. The Fort Bragg trollers fish coast wide, with no seasonal restrictions. The West Coast has a substantially lower volume of fishing than the East Coast, with significantly fewer numbers of ports and a much smaller population.

The fishing industry on the West Coast continues to shrink. Noyo Harbor used to boast seven fish companies in its hay day. That number is down to two. According to the STMA manager, they haven't consolidated; they have just left. There is little competition in the local fish buying market. Farm-raised fish further hold down the price. Natural fish stocks are dwindling as well. "They catch them faster than they grow." The boats have to go farther and deeper to find fish.

Some trollers at the harbor were motivated to form the association in the 1950s for collective bargaining purposes, not marketing. Today, the Association neither guarantees nor finds markets for its members and they have a right but no obligation to market their fish through the Association. In fact, they will sell their fish at the nearest harbor when they are out fishing. The Seafood Producers Cooperative, headquartered in Bellingham, Washington, does more of the marketing. Most of the fish marketed through the Association are sold into the local whole fish market for restaurants and fresh fish markets.

STMA and other associations act more like trade associations than bargaining associations. According to the manager, "most have done a 180 and are more concerned with politics, keeping the industry alive and achieving compromises on regulations, than with setting higher fish prices or finding markets." When asked to assign percentages of time and resources to the two efforts, he stated that the political work would take up 95% with only 5% left for marketing and bargaining. "Price is dictated by regulations and demand anyway."

Approximately 60% of salmon trollers in the port (total of 100) belong to STMA but very few belong to the Seafood Producers Cooperative. Membership in STMA costs \$20 per year plus a set percentage of the value of each member's catch. Even for the STMA it is difficult to attract members from what is typically a very independent group of individuals. The manager sums the problem up by saying that there are basically two types of fishermen, "for some it is a business and they are more inclined to become a member. For others it is a lifestyle, and they are less likely to join the Association." He further notes that apathy runs rampant. A few do the work that benefits everyone.

STMA has also fallen victim to the general shrinking of the fishing industry. A lot of local trollers have gone out of business. At one point, STMA had 250 members and full-time staff. Today, they have 60 members and no staff. STMA is a local organization; all its members reside in the port. Other ports have their own associations. It supports (with annual dues and in-kind) two umbrella organizations: The Fisheries Marketing

Association (FMA), a coastal organization of trollers; and The Pacific Coast Fisherman Association.

What would happen without the Association? As the manager frankly stated, although there might be more fragmentation among the local trollers, it probably would *not* speed-up the decline in troller numbers. “The local associations just aren’t really that effective anymore.” However, they do keep the umbrella associations alive and those are very effective in keeping the industry afloat.

Although fishing has always been a force in the Fort Bragg economy, it is not integrated into that town’s life. According to one STMA member, a lifelong resident, “fishing has always been here, but it is kind of a step-child to the area.” The manager agrees. “The town doesn’t even know the Association is here; it doesn’t know that fishing still exists.” Indeed, discussions with local economic development staff revealed little interest in and knowledge of the harbor-area. The wharf in fact is not incorporated into the city and only receives some city services. Georgia Pacific has always been a major employer in town, at a large timber mill, although it has recently downsized. However, the wharf area is highlighted in Chamber of Commerce tourism literature: “A must-see adjunct to Fort Bragg... the site of a successful sea urchin industry.”

### **13. Locally Owned Business Organization**

The Locally Owned Business Organization (LOBO) of Grand Junction, Colorado is a non-profit corporation established in 2000 to promote locally owned businesses in Mesa County. The principal objectives of LOBO are to: (1) encourage locally-owned firms to engage in business with other locally-owned firms; (2) encourage the employees of local businesses to shop at other locally-owned businesses; and (3) inform the public about locally-owned businesses and what they provide to the community.

In the late 1990s, local businessmen began to collect information on the competitiveness and contributions of locally owned businesses. They discovered that locally owned stores often were competitive with “big box” stores because they participated in purchasing pools or consortiums that permitted volume discounts. In terms of community impact, the owners and employees of locally owned businesses were disproportionately represented on the boards of local non-profit organizations and as appointed and elected officials within city and county government. The locally owned businesses also were more likely to make donations to local non-profits, civic organizations, and educational institutions than the large chain stores.

In October of 1999, several local businessmen began discussing alternatives for promoting the benefits of locally owned businesses and programs to help these businesses compete with big box corporate stores and e-commerce. In February 2000, LOBO was organized. The membership selected its first board of directors in March and hired an executive director the following April. In its first year of operation, LOBO grew from the founding seven members to a peak of 62 member businesses. Membership fees were \$600 a year for each business regardless of size.

Board members were elected by the general membership to three year staggered terms. The five-member board appointed a treasurer and hired a full-time executive director, part-time sales/marketing person, and a CPA to verify financial records. Membership dues financed salaries for the director and sales person. The executive or program director also received a commission (20% of dues) for memberships sold as an incentive to attract other businesses to LOBO.

LOBO members represented a broad cross-section of the area's small business community. Members included retailers (e.g., art supplies, office supplies, construction materials, flowers, and furniture); business and professional services (e.g., accounting, banking, financial consultants, marketing); and personal services (e.g., auto repair, pest control, landscaping, and home improvement). Fifty-three of the 62 businesses were located in Grand Junction with the remaining nine businesses from the nearby communities of Fruita and Palisade.

LOBO attempted to meet its objectives through seven principal activities:

1. Membership Cards. Investors (members) and their employees were issued membership cards entitling them to added values or discounts with purchases at member establishments. Investors were to encourage their employees to shop at member establishments.
2. Newsletter. LOBO published a newsletter (the LOBO News) dedicated to providing member lists and profiles, advertising, and retail specials.
3. Web Site. LOBO maintained a web site [www.lobomesa.org](http://www.lobomesa.org) to help educate the public as to the importance of doing business with locally owned businesses. The LOBO site also provided links to member sites.
4. Speakers Bureau. Representatives from LOBO were available to visit civic and service organizations to promote LOBO's mission and activities.
5. Educational Programs. LOBO members had the opportunity to present, as well as attend, educational seminars. These seminars were to be conducted at the training facility at the local small business incubator (Western Colorado Business Corporation) where LOBO had its office.
6. Advocacy. LOBO sought to establish dialogues with major industries and governmental entities in Mesa County to make certain that locally owned businesses are informed of forthcoming bid opportunities and proposals. One LOBO goal is to see that first considerations for public contracts be offered to locally owned businesses in the county.
7. Publicity. LOBO and its members will be promoted in newspapers and on local television and radio. For example, the LOBO News was included in the *Business Times* newspaper as an insert. Each insert cost \$4,000 and included an in-depth article on one business plus eight shorter business profiles. A local radio station (KSTAR) presented one business profile per week. LOBO also negotiated a 90 second time slot (1 per week for 26 weeks) with the local CBS affiliate to provide a profile of a local business. However, the TV spots were never filmed because the CBS sales manager was replaced and LOBO lost their connections at the station.

LOBO's promotional activities were the most popular benefits for many of the members. LOBO members were excited about the prospect of being featured in the local newspaper or appearing on TV. Many members also assumed that LOBO promotional and marketing activities would provide immediate benefits in terms of new customers and sales. When this did not occur, some members became disenchanted with the organization and began to question if the benefits of membership justified their \$600 annual dues.

LOBO discontinued operations after one year because membership did not increase to the number necessary to employ a full-time program director. The principal problem with the LOBO concept was that the organization did not attract enough dues paying members to offer the programs and benefits it had envisioned. The LOBO founders estimated that there were 5,000 locally owned businesses in Mesa County. The organization hoped to attract 500 members, with a membership of 100 the minimum needed to support programs. LOBO leadership cited three reasons for difficulty in attracting members. First, the original executive director did not enjoy the sales part of the job and was not active in seeking new members.

Second, LOBO did not do an adequate job of convincing small businesses that it was to their benefit to join the organization. Reasons given for not joining LOBO included the following: perception that LOBO was established to help primarily poorly operated businesses; belief that buying primarily from local suppliers was not a good idea; and giving discounts to LOBO members might be interpreted negatively by other customers. Other local small businesses wanted more specific information on how their \$600 in dues would be spent and what the benefits would be to them. In sum, LOBO leadership concedes that many businesses did not philosophically buy into the concept that a strong base of locally owned businesses is "good" for the community.

Third, the local Chamber of Commerce did not support the concept of a program targeted at only locally owned businesses. LOBO was viewed as a threat to Chamber membership until LOBO officials convinced the Chamber that they were after the businesses' advertising budgets and not their dues dollars. However, LOBO leaders also noted that the Chamber initiated programs for small businesses after LOBO started, but the Chamber dropped these programs after LOBO became inactive.

No plans have been made regarding the future of the organization. LOBO currently is inactive though discussions continue among former members regarding the potential to revive the organization or provide LOBO's programs under an alternative structure. However, LOBO board members believe that there remains a core of past LOBO members that are willing to re-join the organization. LOBO leaders also note that they would do three things differently if they attempt to revive the organization. One, they will do a better job of promoting the concept that a strong base of locally owned businesses is good for the community. Two, they will take greater care in selecting the executive director. An individual is needed that has good sales and marketing experience such as the individuals employed in Chamber of Commerce marketing activities. This



individual also must be a full-time employee of LOBO with a focus on keeping the organization financially solvent. Three, the organization must start with sufficient capital to have an immediate impact. An under capitalized organization will have smaller short-run impacts which in turn will discourage current and prospective members.

#### **14. Northern Colorado Water Conservancy District**

The control and use of water plays an important role in the economic development of Colorado communities. In Colorado, most water users (people, industry and agriculture) are located on the eastern slope of the Rockies while the water supply is on the western side of the mountains. The Northern Colorado Water Conservancy District was established to transfer water from the Colorado River on the western slope to a seven county region in northern Colorado, providing a more stable source of water for farmers and residents throughout the 1.5 million acre service area.

In the 1870s, farmers in Colorado organized mutual ditch companies that were responsible for supplying water for irrigation. These ditch companies relied primarily on local sources of water, rainfall and snowmelt stored in reservoirs. Irrigated agriculture in northeastern Colorado increased dramatically between 1870 and 1910. However, an extended drought in the 1930s created periods of water shortage in the region, particularly in late summer when need for irrigation water was still high.

In 1929, state engineers in Colorado completed a comprehensive study of the water resources available in the northeastern portion of the state. The study concluded that there were insufficient supplies of water to meet the supplemental demands of people and agriculture in the region at reasonable cost. There was, however, excess water that could be drawn from the headwaters of the Colorado River on the western slope to meet these needs. In addition, the study found that water users had exhausted private means of augmenting the supply of water in the region and a collective solution was needed.

In 1935, the Northern Colorado Water Users Association (NCWUA) was incorporated, growing out of a Chamber group from Greeley, Colorado. This group was charged with securing federal funding for a trans-mountain diversion project and winning the support of both eastern and western slope residents and politicians. In 1935, the U.S. Bureau of Reclamation prepared plans and cost estimates for bringing water from the headwaters of the Colorado River, on the western side of the Continental Divide, into northeastern Colorado, what came to be called the Colorado-Big Thompson Project. However, it was still necessary to create an organization capable of entering into a contract with the Bureau of Reclamation to distribute federal construction funds and retire debt obligations incurred as part of the project. The NCWUA did not have the power to enter into such a contract and state law had to be changed in order to create a new type of organization.

These factors led to the creation of the 1937 Conservancy District Act in Colorado, which authorized the creation of water conservancy districts. These districts would be created by petition from local taxpayers and each district would have taxing authority. The local district court would appoint the board of directors for each district.

Once the Colorado-Big Thompson project was authorized in Washington DC, it was up to local organizers in northeastern Colorado to get approval for the creation of the Northern Colorado Water Conservancy District (NCWCD). Voter approval was required to create a conservancy district. It was necessary to determine the boundaries of the proposed district and then to get support from the voters. Some opposition to the conservancy district came from ditch company owners who felt their rights to sell water were being jeopardized. A group of Platteville farmers also was intent on having the Platteville district excluded from the broader NCWCD.

The NCWCD was officially created in September 1937. Leaders within NCWCD had responsibility for building support within the district for a tax to cover a portion of the cost of the proposed Colorado-Big Thompson project. District taxpayers had to vote to levy a tax on themselves to pay for the project. In the end, 94% voted in favor of creating NCWCD, which included taxing authority. The combination of drought and depression made the necessity of the project clear to most voters. By the fall of 1938, NCWCD had signed a contract with the U.S. government and money was available to begin construction.

The Colorado-Big Thompson project was completed in August 1956. The project brings an additional 310,000 acre-feet of water for the northeastern Colorado district. NCWCD created 310,000 units or shares of water (each share is some percent of 1 acre foot of water, varying from higher percentages in dry years to lower percentages in wet years) and these shares were sold through an allotment contract to municipalities, individuals, and ditch companies within the district. NCWCD releases water to its allottees based on the number of units or shares they own. For the ditch companies, NCWCD allocates water to the ditch company and, in turn, the ditch company allocates the water to its members.

While there are 46 conservancy districts in Colorado, only one in addition to NCWCD currently operates a water project. The purpose of the NCWCD is to “acquire water; to obtain rights-of-way for certain water works; to provide for construction for water facilities; to incur contractual or bond indebtedness; to administer, operate and maintain physical works; to conserve, control, allocate and distribute water supplies for supplemental use; and to derive the revenues needed to accomplish its purposes (2000 Annual Financial Report). The district is a quasi-municipal district and a political subdivision of the state.

Currently, NCWCD has approximately 2,500 allottees. The NCWCD includes 30 cities and towns, 7 counties, and 120 ditch companies, covering 1.5 million acres of northeastern Colorado. Water cannot be delivered outside the boundaries of the district. NCWCD can include areas within its county service area that follow a petition process.

Agricultural water use dominated the NCWCD in the past, but has declined more recently. In 1957, agricultural users owned about 85% of the Colorado-Big Thompson water and used 98% of the water. Originally, all 12 members of the board were involved

in agriculture. In 2000, agricultural users owned only 42% of NCWCD's water, while municipal and industrial users owned 58%. Today, agriculture uses approximately 70% of the available water supplies. Only 3-4 current board members are involved with agriculture.

The primary responsibility of the NCWCD is to manage and maintain the facilities and distribute the water from its water projects, primarily the Colorado-Big Thompson project. Each year, the NCWCD board establishes a delivery quota for the 310,000 acre-feet of water available from the Colorado-Big Thompson project. The quota is lower during wet years and higher during dry years. The quota determines how much water will be provided, per unit, to allotment holders in any given year. For example, if an 85% quota is established, allottees receive 0.85 acre-feet of water for each unit held.

Revenues to cover operating costs come from water assessments, charges for services, and property taxes. Property tax collections have increased over time to approximately half of total revenues as population has increased and property values have increased while the tax rate stays fixed. The allotment contracts are of two types, a fixed rate contract with a price of \$1.50 per acre-foot and an open rate contract with the price set by the board annually. Over time as fixed rate contracts are transferred or sold, they are shifted to open rate contracts.

Allottees have the right to transfer or sell their allotment contracts to other individuals, municipalities, or industrial concerns within the district. While the prices are determined by the open market, the transactions are subject to rules imposed by the board. Over time, the market price of a unit has ranged from a low of about \$100 in 1964 to a high of about \$15,000 in 2000.

NCWCD does not have any formal economic development programs. They do offer irrigation management services for agriculture and municipal governments. However, the most significant economic development role the NCWCD plays is that of coordinator of cross-jurisdictional activities. Because NCWCD crosses jurisdictional boundaries, local governments have turned to the organization for assistance in developing multi-jurisdictional projects. For example, NCWCD served as an agent for communities that wanted to create a pipeline to deliver water in the winter when most ditches are not operable. NCWCD provided planning and design services, but the communities paid for the development of the pipeline. In another example, NCWCD created a municipal sub district of six cities that banded together to build a water project. The Windy Gap Project was built to meet the increased water needs of these cities, using NCWCD's planning and developing services.

Another responsibility of the NCWCD staff is long range planning for water usage in the district. It takes a minimum of 15-20 years to complete a water project. As a result, it is important to determine today what water needs will be in the future. NCWCD staff is in the process of updating a regional water demand study from 1985. NCWCD is looking at the strategic and land use plans for all 36 municipalities in the district and using these data as inputs to a GIS system to determine where growth will occur, including whether

growth will occur on irrigated or non-irrigated land. These projections will help the district determine what additional water projects may be needed and to begin considering alternative locations and scenarios for these projects within the district. NCWCD expects an additional one million people (bringing the district total to 1.5 million people) in their district, thus requiring an additional 260,000 acre-feet of water per year.

The NCWCD was created under unique circumstances. The combination of an ongoing drought and the depressed economy, particularly in agriculture, created a situation where local residents in the district were willing to tax themselves to find a solution to their water problems. The depression created an environment in Washington DC that was favorable toward public works-type projects as a means of putting people to work and the Colorado-Big Thompson project was viewed positively as a result. Since the project was built before most environmental laws were adopted, the proposed tunnel under the Rocky Mountain National Park did not receive the same type of environmental scrutiny that the same project would today. Finally, limited development pressures on the western slope of the Rockies at the time made it more politically acceptable to divert water from western interests to eastern farmers than it might be today.

Without these unique circumstances, it would be difficult to superimpose the NCWCD structure on existing municipalities in the region. As the size and number of these municipalities increase, creating an inter-jurisdictional agency such as NCWCD becomes more complex. For example, the district chose not to get involved in providing water and sewer treatment because the municipalities wanted to maintain their own facilities.

NCWCD will likely continue to do things as they have done in the past. The operation of the water project has been successful financially and in terms of providing a more stable supplemental water system to the district. Anticipated future growth in the region will require planning to increase water supplies and NCWCD has already begun this planning process.

In addition to planning to meet the water needs of the growing district, NCWCD is studying options to stretch water supplies including encouraging use of dual water systems where feasible. One supply would be of potable water, suitable for most residential purposes. The other would be a supply of non-potable water that could be used to meet landscape irrigation needs. This dual supply would help put off the time when a new treatment plant is needed in areas experiencing growth associated with residential and other developments related to tourism such as golf course development.

