



## *Capital Formation in Cooperatives*

### *Economic Analysis of State Incorporation Initiatives: A Pilot Framework*

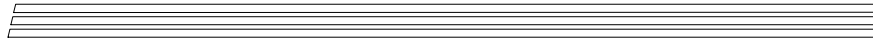
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NCR-194

Kansas City, Missouri



## *Introduction*

- **Origin**
- **Issue**

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## *Basic Analytical Approach*

- NIE Framework (E, L, OT)
- TCE, AT, IC / PR
- RC  $\equiv$  RRC

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## *Choice of Framework: Organizational Form*

	Corporation	Proportional Coop	NGC	LLC <50% outside	LLC >50% outside	WCPL
Producer Control?	No	Yes	Yes	Yes	No	Yes
Favorable Taxes?	No	Yes	Yes	Yes	Yes	Yes
Majority Outside Equity?	Yes	No	No	No	Yes	Yes

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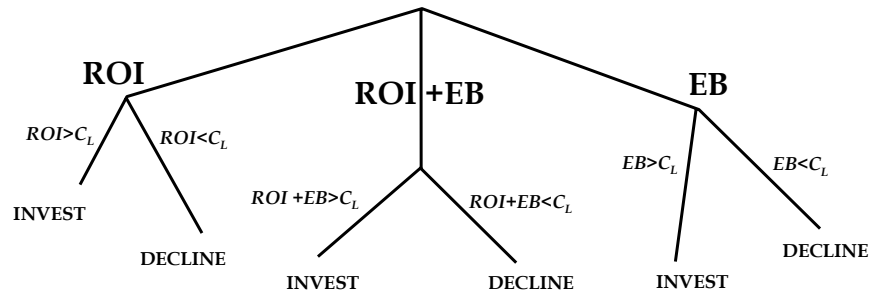
<b>Distribution of Residual Claims: Selected Business Forms</b>					
	Corporation (Chapter C)	Proportional Investment Cooperative	New Generation Cooperative	Limited Liability Company	Wyoming Processing Cooperative
<i>Patronage Based</i>	Allowed but Very Uncommon	Net Income, Proportional to Patronage  Better Price	Net Income, Proportional to Patronage  Better Price	Allowed but Uncommon	Net Income, Proportional to Patronage (Minimum 15% of Net Income Required)  Better Price
<i>Investor Based</i>	Net Income, Proportional to Investment	Allowed but Uncommon  Limited Net Income, Proportional to Investment	Allowed but Uncommon  Limited Net Income, Proportional to Investment	Net Income, Proportional to Investment	Net Income, Proportional to Investment
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<b>Distribution of Residual Control: Selected Business Forms</b>					
	Corporation (Chapter C)	Proportional Investment Cooperative	New Generation Cooperative	Limited Liability Company	Wyoming Processing Cooperative
<i>Election of Directors</i>	Proportional to Investment	One Member = One Vote	One Member = One Vote	Proportional to Investment  One Member = One Vote allowed by uncommon	One Patron Member = One vote; Proportional to Investment for Investor Members
<i>Bylaws and major policy issues</i>	Proportional to Investment	One Member = One Vote	One Member = One Vote	Proportional to Investment  One Member = One Vote allowed but uncommon	Patron Members Vote as Block; Investor Members Vote proportional to Investment
<i>Director Voting</i>	One Vote per Director	One Vote per Director	One Vote per Director	One Vote per Director	Producer Directors Maintain Minimum of 50% Voting
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## Choice Framework: Non Producer Investor

### Benefit Flow Criteria



ROI = Return on Investment at the cooperative level  
 $C_L$  = Control Loss  
EB = External Benefit

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## Possible Implications

- For Producers (Users)
- For Investors
- For Others ?

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