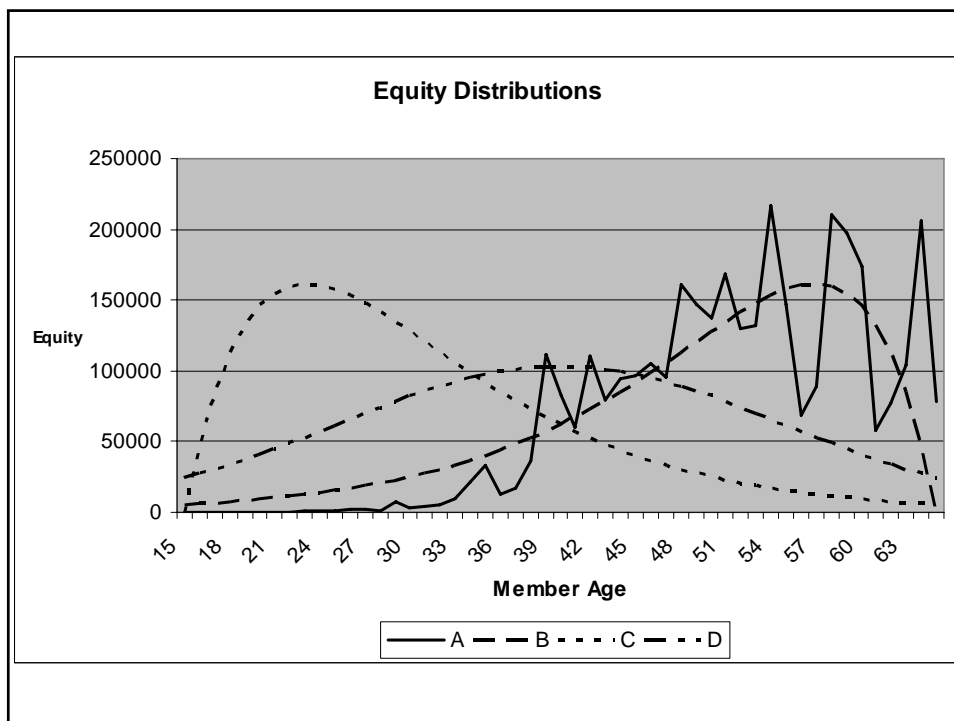


Equity Redemption in Cooperatives: Transitioning to a Revolving Fund

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Identifying the Problem

- Increasing age of the average farmer
- Diminishing interest in cooperative investment from younger producers
- Diminishing margins
- Equity distribution issues in agriculture cooperatives



What to do?

- One alternative for helping in this problem is to switch to a revolving fund equity retirement plan.
- There are several options for switching to revolving fund plan.
 - Direct Conversion
 - Old Equity/New Equity Conversion
 - Transition

Transition Period

- A transition period allows for a smoother changeover between equity retirement plans.
- What do we mean by transition period?

Objective of Analysis

- Use a simulation model to analyze the effect of a cooperative's choices on its transitioning from an age-of-patron plan to a revolving fund plan
- We focus much of our attention on the initial revolving period once a transition is initiated.

The Model

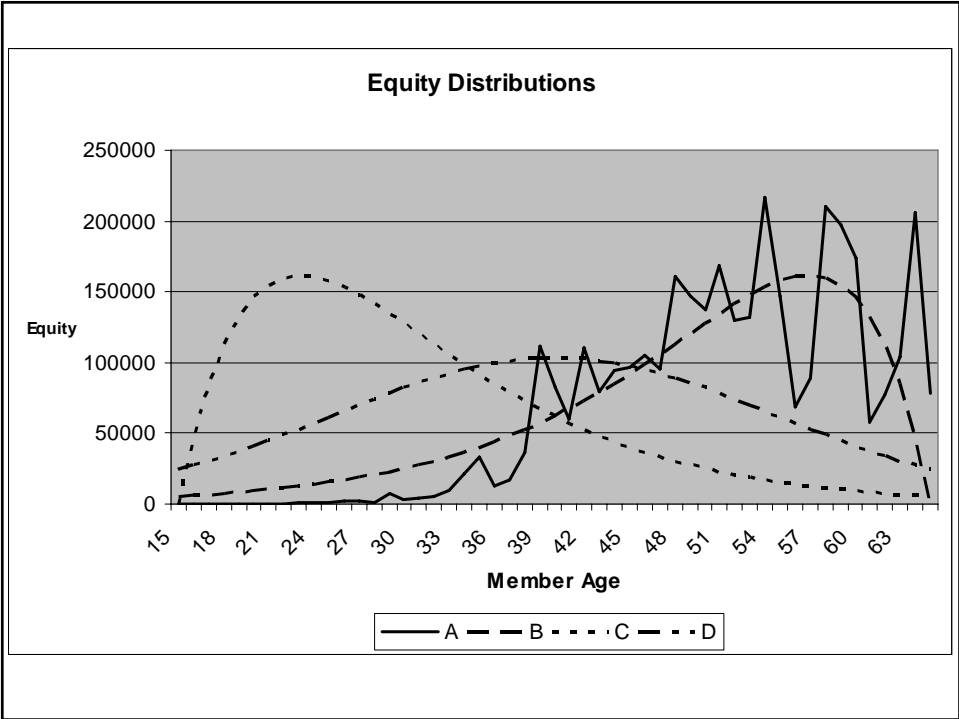
- Nebraska Cooperative Analytical Simulation Tool (NebCAST)
- Algorithm based on assumptions from decision framework of Midwestern Cooperatives

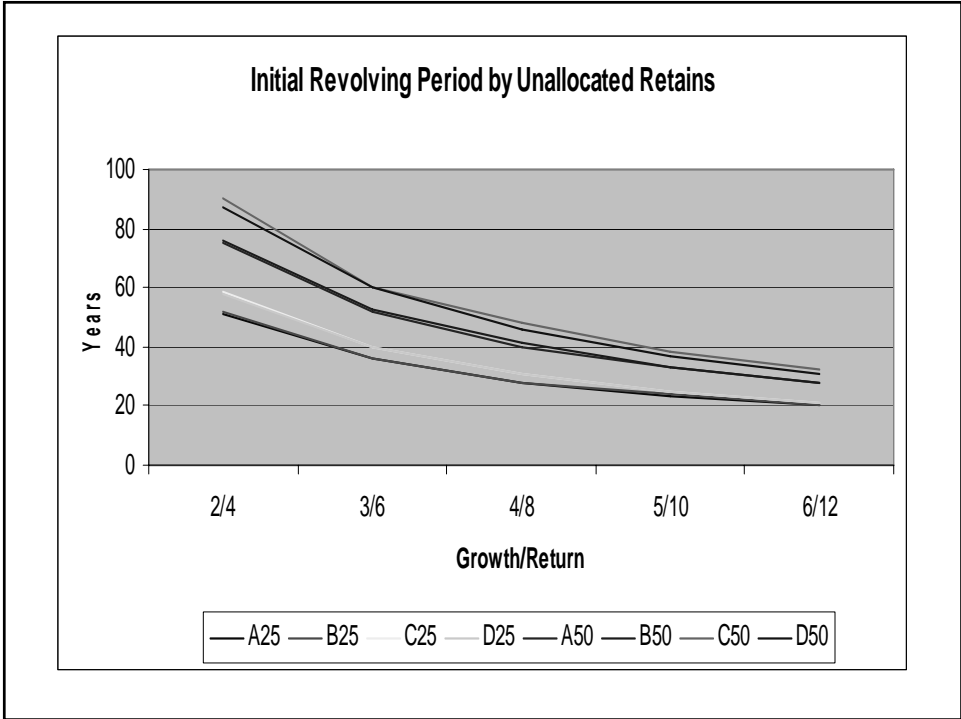
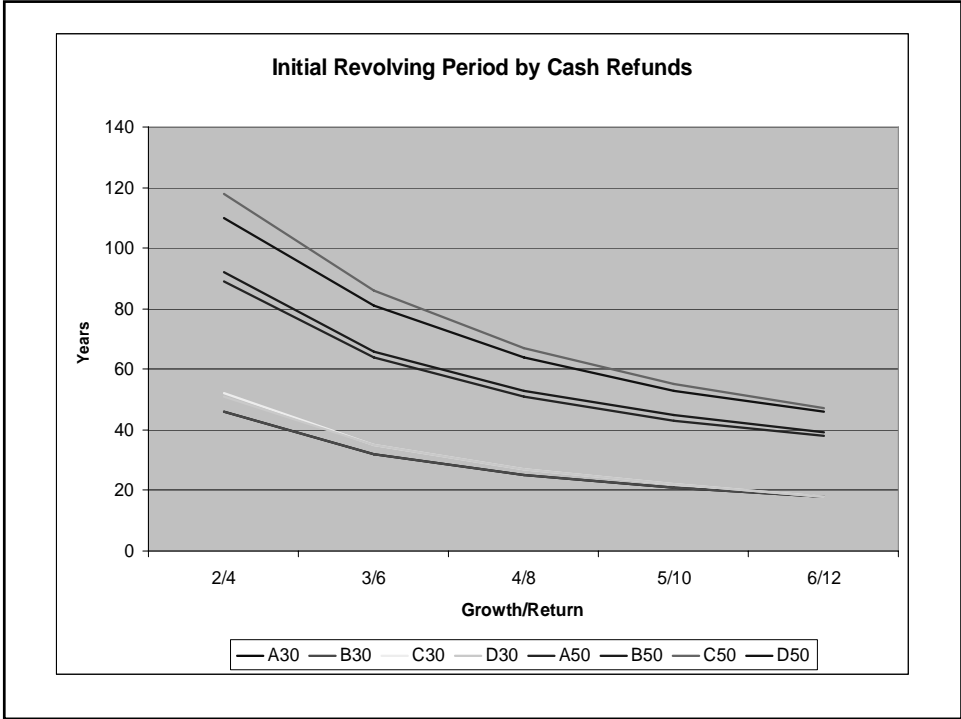
Inputs used by the Model

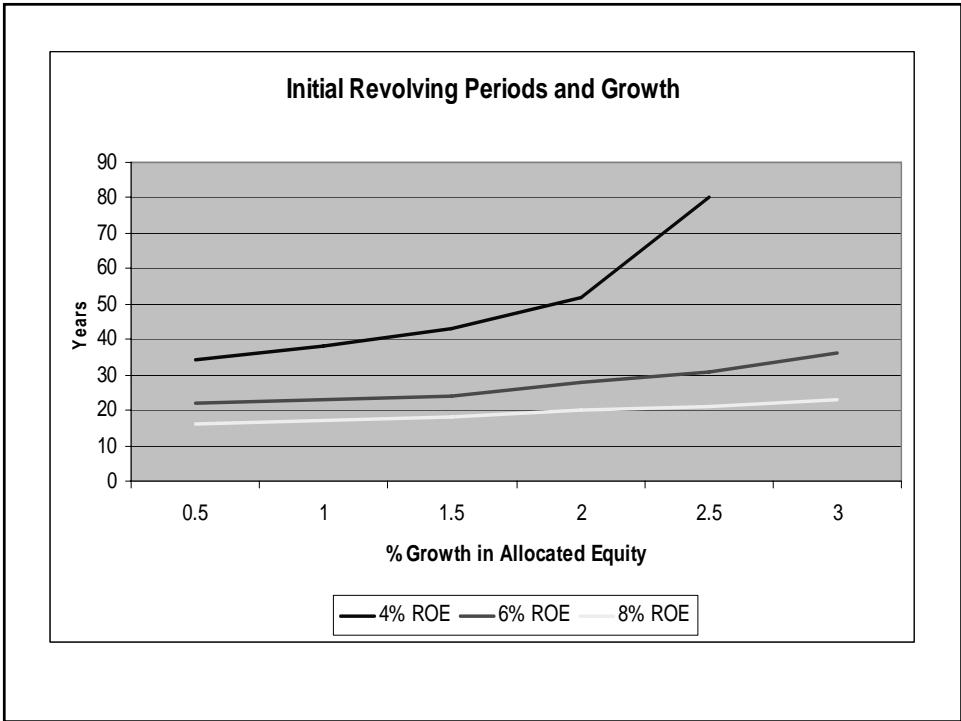
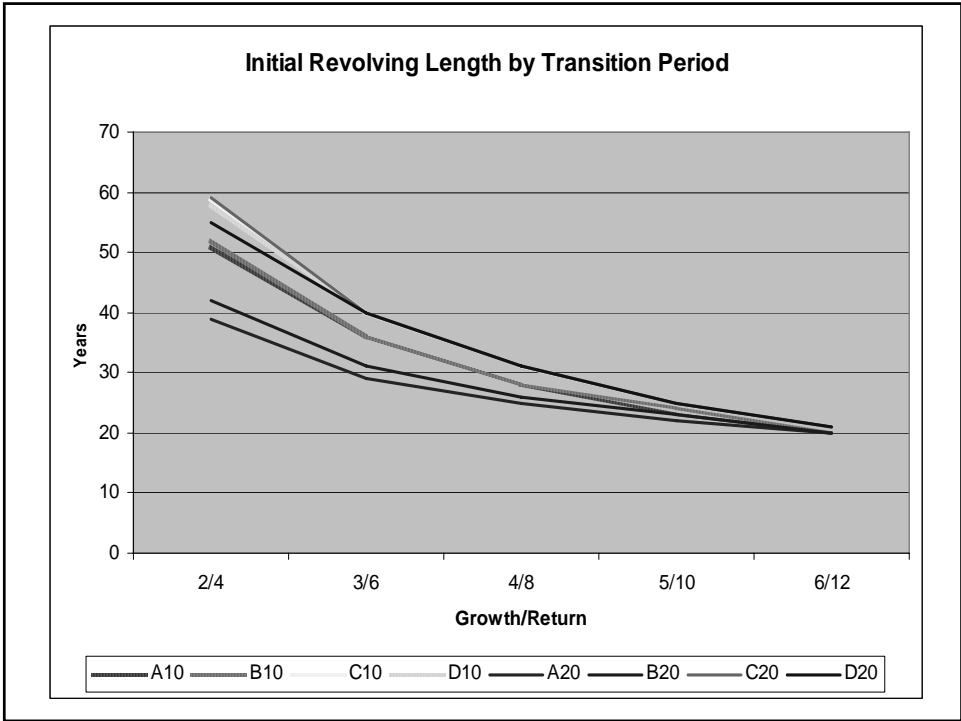
- Unallocated and Allocated Equity Inputs
- Allocated equity entered by age
- Set values for:
 - Cash refunds
 - Unallocated Retains
 - Rate of Return on Total Equity
 - Rate of Growth in Allocated Equity
 - Transition Period
 - Member Discount Rate

NebCAST Algorithm

- Net margins calculated from R.O.E.
 - Allocated Equity and Unallocated Retains
- Allocated Equity
 - Cash refunds and Non-cash refunds
 - Non-cash refunds accumulated in the revolving fund, with priority of use to:
 1. AOP redemption
 2. Allocated equity growth
 3. Revolving fund redemption







Concluding Remarks...

- Cooperatives:
 - 6% R.O.E.
 - Growth of not more than $\frac{1}{2}$ of R.O.E.
 - Minimal distributions to unallocated retains
- Members:
 - Accept cash refunds of no more than 30%
 - Understand how the revolving fund will work
 - Bear the risk of fluctuation in revolving periods

Questions?

Stability in the Revolving Period

- The initial revolving period is a good estimate of the revolving period in future years.
- Stability in the revolving cycle:
 - Occurs faster with low cash refunds, low unallocated retains, and shorter transition periods
- Faster stability with equity structures C and D