National Cooperative Business Association

Statement of Kevin Edberg
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on behalf of the
National Cooperative Business Association

Before the Senate Committee on Finance
hearing on
Saving America's Great Places:
The Role of Tax Incentives in Preserving Rural Communities

Mr. Chairman, thank you for this opportunity to testify on tax related policies to spur investment in rural communities, and in particular, how cooperatives can enhance economic opportunity in America's small towns.

I am Kevin Edberg. I am the executive director of Cooperative Development Services (CDS). And I am here today representing the National Cooperative Business Association.

CDS offers technical assistance to farmers and communities seeking to form their own member-owned cooperatives. We work in Iowa, Minnesota, and Wisconsin. Our portfolio includes new generation agricultural cooperatives, including renewable fuels co-ops, landowner forestry cooperatives, housing cooperatives, food cooperatives and many others. Our current projects in Iowa include providing technical assistance to Wholesome Harvest near Ames, a startup co-op for organic livestock producers, and Upper Mississippi Meats in Decorah, a natural meats co-op that is still in the planning stages. Both of these cooperatives seek to capitalize on the rapid growth in the organic and natural foods market. We are also working with Prairie's Edge, a farmer and landowner forestry co-op near Decorah. It provides farmers with management, harvesting and marketing services that turn previously under managed woodlots into long-term, ongoing sources of revenue.

CDS was the nation's first cooperative development center, formed nearly 20 years ago. We now work with a network of some 20 similar centers—known as CooperationWorks—that provide technical cooperative development assistance across the country. This network includes the Iowa State Value-Added Agricultural Development Center. The centers conduct feasibility analyses, develop business plans, and provide organizational assistance, such as help with developing bylaws and other governing documents for cooperatives. The centers function as the only sources of expertise in cooperative development. I have attached a list of cooperative development centers as an appendix to my statement.

The National Cooperative Business Association, of which CDS has been a long-time member, has been a national partner with these centers, working to build a strong cooperative development infrastructure for rural communities, helping support those of us doing co-op development on the ground. Headquartered in Washington, NCBA is the only national cooperative membership association representing cooperatives of all types across all sectors of the economy, including agriculture, childcare, electricity, housing, telecommunications and many others. NCBA's mission is to develop, advance and protect cooperative enterprise.

First, on behalf of NCBA, I thank you for your years of support for cooperatives of all types and your interest in their role as engines of economic growth in rural communities. Your leadership is both recognized and appreciated by NCBA and its members.

Cooperatives can and do play a key role in improving quality of life and economic opportunity in rural America. Farm co-ops not only provide direct benefits to producers in the form of services, annual dividends, and often better prices; they generate jobs and income for the community. And by the very nature of co-ops, that income stays in the communities in which it was generated; it doesn't go to distant investors.

Consumer-owned co-ops also provide vital services in rural communities where other forms of business are often loath to locate. That's because co-ops can provide at-cost goods and services to their members and so don't require the returns that investor-owned businesses must generate. That's why credit unions, farm credit banks, and electric, telecommunications, food, housing and purchasing cooperatives for small businesses (such as hardware store owners and local pharmacies) offer great hope for revitalizing rural communities.

For example, many rural communities have watched their local grocery stores close as rural populations decline, small business owners retire, and no new buyers come forward. With the loss of a local source of food, comes greater economic decline. When people go elsewhere to buy groceries, they take their other business with them. Co-ops can prevent that downward spiral.

Here's one example of how innovative use of co-ops can stem that loss and promote greater economic growth. In 2001, the citizens of Barneveld, Wisconsin lost their grocery store, forcing them to drive 30 miles roundtrip for even the most basic household supplies—that was particularly hard on seniors who lack transportation.

But last month, that community celebrated the opening of a new grocery store—a co-op owned by 325 local consumers who each bought a $100 share in the business. Members also stepped forward to make loans to the co-op for the initial investment, with additional debt financing provided by the local bank. Cooperative Development Services provided technical assistance to the co-op, including the feasibility analysis, development of the business plan and the community organizing work. The co-op will provide four to five new jobs, with projected first year sales of $1.2 million.

Other cooperatives, such as consumer-owned healthcare clinics, childcare co-op, housing cooperatives; landowner forestry cooperatives, small business purchasing cooperatives and others offer great promise for rural communities.

Sadly, co-ops are an underutilized rural economic development tool due to the many economic and other barriers to their development.

Access to Capital

Among those barriers is access to capital—a key constraint for all types of cooperatives, but a particular problem for value-added, farmer-owned co-ops that often require the construction or modification of capital-intensive processing facilities. Generally, in a cooperative, the equity investment is provided by the members. More than one viable co-op has failed before it ever got off the ground because the equity drive failed—organizers couldn't convince enough farmers to provide the equity required.

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For some cooperatives, both Section 521 of the tax code as well as Capper Volstead requirements hamper a farm cooperative's ability to bring in outside capital by capping returns on capital stock at eight percent. Section 521 farm cooperatives are further required to have substantially all of the voting stock held by producers as well as a governance structure that provides for one-member, one-vote. Therefore, to qualify for Section 521 treatment, co-ops are limited in their ability to bring in significant outside investment.

Other cooperatives, those that neither require Capper Volstead protection nor qualify as Section 521 cooperatives, face other limitations in their efforts to bring in outside capital. In order to qualify for tax pass through treatment, the Internal Revenue Service requires that cooperatives distribute profits to members based on their patronage, rather than based on ownership share and generally requires evidence of democratic member control in the form of one-member, one-vote. Though subchapter T cooperatives can bring in as much outside capital as they wish, they are limited by the existing definition of cooperatives—the so-called "subordination of capital" requirement—in how they can distribute earnings to those investors. Earnings from member business must be distributed to members based on patronage.

In response, many farmers are forming cooperatives that then become co-owners in an LLC, along with other outside investors. That is the case with virtually all of the ethanol and biofuels co-ops that have formed in the Upper Midwest. This allows the co-op to represent their farmer members en bloc in the LLC while bringing in outside partners into the processing business that farmers hope will ultimately provide greater economic returns.

Alternatively, farmers are forming the initial business as an LLC owned by the farmer-members and operate it as a cooperative, without the capital constraints. They then enjoy single tax treatment under Subchapter K.

As you know, in response to the capital challenges, some states are creating new state co-op statutes that allow cooperatives to bring in non-member capital, create both patron and non-patron "members"—that is, outside investors—and provide for both greater financial and governance rights for those non-patron members. The co-ops can elect to file under Subchapter T or Subchapter K, as limited liability companies do.

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Though many have greeted these hybrid statutes with enthusiasm, NCBA would caution that they are a largely untested approach to capital generation. It is simply too soon to tell whether they serve as an effective capital generation tool.

Uniform State Statute

The growth in these new "hybrid" statutes has prompted the National Conference of Commissioners on Uniform State Laws to draft a uniform state co-op statute, confined to agricultural cooperatives, which has in turn raised questions about whether current tax law for cooperatives needs to be modernized.

NCBA has created a working group to evaluate the myriad issues associated with the draft uniform state statute, including the core question of when does a business cease being a cooperative, and to provide NCCUSL with advice and input. We will be looking at a variety of questions, including what minimum level of ownership and return must patrons have in order for the business to truly be a cooperative. In its current form, the NCCUSL draft fundamentally changes the traditional definition of a cooperative by defining members as both those who patronize the co-op and those that invest in it. This change would be of great concern to a number of cooperatives. Key questions relate to how patrons retain control over the business to ensure that it continues to meet the needs the business was created to address.

Cooperatives enjoy significant marketplace advantages because of their member-owned status—engendering greater consumer trust. That consumer confidence in cooperatives may be eroded if members no longer truly own and control the business. NCBA will review the NCCUSL draft with an eye to strategies to enhance co-op flexibility in raising capital while maintaining member ownership and control.

Subchapter T

To that end, we welcome your interest in authorizing the creation of a Subchapter T Commission, provided for in the HIRE Act, to evaluate the many issues raised by ongoing capital challenges and the new hybrid statutes. In particular, the need to evaluate other laws that hamper cooperative development, including securities laws, is long overdue. Compliance with federal securities laws is not an insignificant thing. Currently, the Securities Act of 1933 contains an exemption for Section 521 cooperatives and the Securities Exchange Act of 1934 has an exemption for cooperative associations as defined in the 1929 Agriculture Marketing Act. The

1933 contains the basic registration requirements and exempts Section 521 cooperatives, and should be expanded to exempt all cooperatives. Secondly, the Commission may wish to re-examine the 1934 Act and consider whether it should be expanded as well.

Though the issues associated with securities laws are many, I can tell you that from my perspective as a co-op developer, the costs of complying with securities registration requirements, or merely seeking exemption from them, can be burdensome for new start-up cooperatives and majority farmer-owned LLCs.

Much of the reevaluation of cooperative structures has been driven by the significant capital barriers facing farmers seeking to develop new and expand existing cooperatives. But farmer-owned co-ops, though significant and important players in rural economies, represent just one sector affected by Subchapter T. Virtually every type of co-op, with the exception of credit unions and utility cooperatives, file under the provisions of Subchapter T. This includes large purchasing cooperatives such as ACE Hardware, with its thousands of small business owner-members in small rural towns, as well as very small food and worker-owned cooperatives—all of which make significant economic contributions to their communities. Their views and insights into Subchapter T will help the Commission effectively conduct its work. Any change in Subchapter T would have significant implications for all cooperatives.

NCBA therefore recommends that the legislation explicitly provide that members of the Commission include legal and cooperative experts from the broadest cross-section of the cooperative sector as possible, including purchasing, consumer-owned and worker-owned cooperatives. We would also recommend that the Commission be required to evaluate carefully any unintended consequences of recommendations it considers.

Eliminating Tax Inequities

NCBA cautions that statutory changes that ease capital constraints on cooperatives don't necessarily mean capital will begin to flow into rural cooperatives. Rural areas, because of their sparse population and often less developed infrastructure will always face challenges in attracting capital investment, regardless of the business form. But eliminating tax inequities in concert with the provision of new tax incentives can go far in spurring new investment in rural cooperatives.

The provisions of the HIRE Act that eliminate tax inequities on cooperatives have been long sought by cooperatives and those of us who do co-op development on the ground.

First, eliminating the negative impact of the Dividend Allocation Rule as it has been applied to cooperatives will provide significant benefits to cooperatives seeking to raise additional expansion capital. The DAR unfairly increases the tax burden on cooperatives that pay dividends on capital stock by reducing the deduction they allowed for their patronage dividends. As a result, the rule also reduces dividends paid out to members. The triple-tax penalty imposed by the dividend allocation rule impedes the co-op's ability to raise investment and expansion capital. By some estimates, the DAR results in a 73 percent tax on nonpatronage earnings if a cooperative pays dividends on capital stock.

For agricultural co-ops operating in the increasingly concentrated and competitive food industry, issuing nonvoting stock is a one avenue for raising new capital for expansion. But those that do face significant tax burdens, lessening the overall impact of stock issuance. Moreover, the rule discourages cooperatives that could issue stock from doing so.

Though often thought to be most relevant to large agricultural cooperatives as they issue preferred stock on public markets, the DAR also affects any cooperative, large or small, that issues non-voting stock. And those cooperatives offer promise for rural America.

VHA, Inc., is a national purchasing cooperative for community-owned hospitals with 2,200 hospital member-owners, many in rural areas including 16 members in Iowa. VHA plays a key role in keeping rural, small-bed, nonprofit community hospitals operating in small towns across America. Like many other services, hospital care is not a profitable enterprise in sparsely populated areas. With few beds, these hospitals face higher per patient costs. VHA helps them keep those costs down while constantly improving quality.

VHA has issued non-voting stock to many of its members in order to raise capital. But because of the enormous financial hit imposed by the DAR, VHA has refrained from paying dividends on that stock. That, of course, makes that stock a less attractive investment for others.

Here's another example: A small, worker-owned cooperative in Massachusetts sells non-voting shares to its worker-members and outside investors. When it pays dividends on that stock, which it must do to keep investors happy, its employees are hard hit as the DAR necessarily reduces the size of the dividend they receive.

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Yet issuing non-voting stock that provides a reasonable return to investors can be a key tool for cooperatives. But in order for it to become so, the negative impacts of the DAR must be eliminated. We thank you for your inclusion of this provision in the HIRE Act and for your successful efforts to include it in the JOBS bill. We know you have pursued every possible legislative strategy to secure its passage and we applaud your determination and commitment. We look forward to working with you to move the JOBS bill through conference and onto the President's desk this fall.

Second, Section 104 of the HIRE Act, which allows cooperatives to pass through tax credits to their members will help eliminate long standing inequities faced by cooperatives. Notably, it will provide tax parity to ethanol cooperatives, allowing them to pass tax credits through to their members, leveling the playing field for these co-ops who have, to date, not been able to take advantage of a key benefit available to other small ethanol producers.

Third, the provisions of the HIRE Act that expand Section 521 eligibility to a broader range of agricultural cooperatives will also provide needed flexibility to farmers seeking to form new cooperatives and expand business services of existing cooperatives.

The provisions of the HIRE Act that eliminate tax inequities and improve flexibility under the tax code is a key first step in enhancing cooperative viability and increasing access to capital.

Housing Cooperatives: The Promise of the Community Homeownership Credit

Creating new tax-related incentives to spur formation of new cooperatives is another key step in promoting further cooperative development in rural areas and we applaud your leadership in this area as well.

Specifically, the National Cooperative Business Association supports Section 310 of the HIRE Act, the Community Homeownership Tax Credit. Most significant about this provision is that, for the first time, the tax code would provide parity for homeownership. To date, existing tax credits for affordable housing have been limited to development of rental housing. Though these credits have done much to create new affordable rental housing, they have done little to encourage homeownership, the key avenue by which average citizens build assets and wealth.

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NCBA applauds the inclusion of stock in housing cooperatives under the Community Homeownership Credit provisions and the 10 percent set aside for nonprofit housing developers.

Creating affordable housing is a critical tool for revitalizing rural communities. In the short term, the very act of housing development creates significant benefits: use of local legal, architectural and consulting services; creation of construction jobs with good (and taxable) wages; increased demand for building materials and services; and increased consumption of goods when residents move in. Analysis by the National Association of Home Builders found that the first year economic impact of development of 100 multifamily housing units was substantial, generating 121 local jobs, $3.5 million in wages and salaries, $1.2 million in local business income, and more than $ 400,000 in local taxes. The same analysis found significant long-term economic benefits for local communities. Though 100 units is a substantially larger development than a small rural community could support, those results inform rural housing development efforts.

There are other intangible benefits of expanding homeownership in rural communities. According to USDA's Economic Research Service, "Homeowners tend to become more involved in their communities and work toward community improvements, such as better schools."

The bottom line is that homeownership in rural areas is a critical component of rural economic development. Without local housing, the multiplier effects communities hope to create with new business development will be stymied. Workers need an affordable place to live, work and shop. And availability of housing prevents existing residents from leaving, taking with them their patronage of grocery stores, healthcare providers, daycare providers, banks and much more.

For example, in the community of Lanesboro, Minnesota, population 800, Northcountry Cooperative Development Fund is rehabilitating a landmark building and converting it to cooperative housing. That town is enjoying growth through a rapidly expanding tourism market. The population of Lanesboro, like that of most other rural towns, had been declining for years. The growth in tourism has helped stabilize the population. But Lanesboro has substantial opportunity to grow if it can provide the appropriate infrastructure, including housing. But as a small community, housing remains in short supply. Those working in Lanesboro to supply the tourism market cannot necessarily live there. NCDF, a sister cooperative development

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organization, secured local property tax breaks from the municipality to create the 21-unit housing cooperative. Providing those who work in Lanesboro with the opportunity to live there as well will spur even greater growth for Lanesboro.

And yet, despite the importance of housing to rural economic development, rural areas face unique affordable housing issues. Like other forms of housing development, small communities, particularly those with a population of 5,000 or less, often are not attractive investment opportunities for most housing developers. The costs of development often cannot be covered by sales costs—many rural residents simply can't afford to pay a price that compensates builders for the construction costs and provides them with a return.

Though homeownership rates in rural areas tend to be higher than that for urban areas, household income tends to be lower, making affordability a key issue. Poverty rates in rural areas exceed that of urban areas by nearly three percent. Some 14 percent of rural populations, or 7.5 million people, are poor. And poverty rates for rural minorities are even higher. As a result, homeownership for rural minorities and the rural poor significantly lags behind that of the general population.

Tax credits to both for-profit and nonprofit developers of nonrental housing make up the difference between the construction costs plus a reasonable return and a sales price that is affordable to local residents—eliminating a key barrier to the development of affordable housing and, indeed, creating financial incentives to create it.

In many rural areas, another key barrier to the development of affordable homeownership is construction capacity. Market demand does not support the assembly and continued use of sufficient construction capacity to create economies of scale. The tax credit should supplement market demand to make production at a reasonable scale possible.

Obviously, of particular interest to NCBA is the potential of the tax credit to spur greater interest in and investment in housing cooperatives in rural areas—something we believe offers significant promise for rural residents, particularly seniors, which I'll address in just a moment. Housing cooperatives, particularly those for low to middle income families, are among the most difficult co-ops to develop in rural communities.

In addition to the financial barriers common to any form of affordable homeownership mentioned above, developers of housing co-ops face some unique barriers. Though housing co-ops are common in urban areas, rural buyers and bankers have little experience with housing cooperatives. The concept is foreign. In a housing cooperative, owners buy a share of the corporation, not their individual housing unit. That requires a "share loan" from a bank rather than a typical mortgage. Housing co-ops can also take out a blanket mortgage for the entire cooperative building, with the owners paying their monthly charges to the co-op, which then makes the loan payment to the lender.

Promoting understanding and buy-in of the co-op housing concept among potential buyers and lenders takes considerable time, effort and resources. On top of that, once a critical mass of buyers is found, substantial education in the governance process of cooperatives must be conducted, bylaws and governing documents of the co-op must be drafted, and a governing board must be established and functioning even before residents move in.

And, as with condominiums, housing co-op developers often must pre-sell a large proportion of their units before they can secure debt financing. That increases development time and potentially raises costs for developers.

Despite these barriers, cooperatives offer substantial benefits to their member-owners that potentially make them not just more affordable to rural residents, but more attractive to communities.

First, because a title search is not required, closing costs are substantially lower. A cooperative that takes out a blanket loan for the entire corporation can set flexible terms for buying into the co-op. Those members who might not qualify for an individual loan can still become homeowners. The combination of these factors creates lower barriers to entry compared to other forms of homeownership—making homeownership more accessible to those who might not otherwise have access to it.

Housing cooperatives are extremely flexible, and can be designed to meet the specific needs of a given community. The co-op controls who can become a member of the co-op, allowing, for example, the creation of a housing co-op exclusively for seniors or long-time residents of the community. And generally, relative to condominiums, cooperative housing shareholders have far more control over their housing situation. If residents want the housing to remain affordable, they can create a limited-equity cooperative where the growth in the sale price

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of units is constrained. This can be particularly important for senior housing, where residents have fixed incomes.

Offering a tax credit to developers will substantially increase the incentive for housing cooperative development, making it more likely developers will be willing to overcome these barriers, expanding homeownership options for middle and lower income populations—particularly seniors.

Rental Housing Conversion Opportunities

A word about rental housing. The Community Homeownership Credit may help convert aging Section 515 rental housing in rural areas into cooperatives, offering low-income population homeownership opportunities. The Section 515 program, operated by USDA, is the primary source of affordable rental housing in rural America. But thousands of Section 515 units, built in the late 1970's, are aging and are in need of rehabilitation. At the same time, many of the owner-developers of these rental properties are looking to sell their buildings. The opportunity to use the community homeownership tax credit in tandem with a coordinated program to rehabilitate and convert existing Section 515 units to cooperatives offers great opportunity to increase homeownership and housing quality in rural America. USDA is currently exploring the development of a program to facilitate conversion of 515 units to cooperatives. Such a program could work hand-in-glove with the Community Homeownership Credit.

Senior Housing Cooperatives: Affordable Housing for Independent, Active Seniors

NCBA has long promoted housing cooperatives as a solution to meet the increasingly complex housing needs of rural seniors. We believe the Community Homeownership Credit has particularly strong potential to spur development of senior housing cooperatives.

The rural elderly face unique housing challenges. About 2.5 million elderly households in rural America, or 42 percent of rural seniors, have very low incomes—at or below 50 percent of their area's median income. Twenty-two percent of rural seniors live below the poverty line. Although housing costs in rural areas tend to be lower than in cities, many senior households, because they live on fixed incomes, have difficulty meeting even these lower housing costs. Twenty-five percent of rural senior households are cost burdened—that is, they pay more than 30

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percent of their monthly income on housing. Affordability issues for seniors that rent are even more severe. And elderly women who live alone in rural areas are more likely than their male counterparts to be poor and face significant housing cost burdens.

Despite high ownership rates in rural areas, particularly among the elderly, the quality of housing continues to be an issue. The housing stock in which seniors live tends to be significantly older. According to the Housing Assistance Council, among all elderly households, those in rural areas tend to have the highest housing quality problems. Not only are the homes owned by seniors generally older, seniors on fixed incomes have limited ability to maintain them. HAC also reports that nearly a quarter of rural seniors report having one or more physical limitations which further limits their ability to maintain their homes and increases their need for adaptive housing.

Despite these statistics, rural seniors, including those living in substandard housing, demonstrate a strong preference for remaining in their homes, not necessarily because they prefer that living arrangement, but because they do not wish to leave their community, lose their independence, or move into a nursing home. In most rural communities, seniors who no longer are able to or want to maintain their single family homes have one of two options if they wish to stay in the communities in which they've lived for decades and where they've raised their families: they can move into rental housing which depletes their equity, or they can move into a nursing home—an unpalatable option for seniors who don't need full care and one which decimates their lifetime savings. There simply are no multifamily homeownership options for seniors in rural communities. If they want them, seniors must leave their communities.

These issues will not go away. They will intensify as America ages. By 2030, researchers predict that seniors, as a percentage of the population, will grow from 13 percent to 20 percent, intensifying housing and care issues. Where will they live?

Housing co-ops form at least a partial answer to that question. For rural areas in particular, senior housing cooperatives have the potential to fill the housing gap. Senior housing cooperatives offer a number of attractive benefits to seniors.

First, housing co-ops allow seniors to retain their equity. Second, housing co-ops allow seniors to live independently, but with some level of supportive services. And because housing cooperatives are controlled by the member-owners, seniors can decide what level of assistive

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service they want for their cooperative and how much they will pay for them. Third, because the seniors serve on the co-op's governing board, they stay active and involved in the co-op. Fourth, the co-op creates a natural community of people of similar age and with similar interests, further encouraging seniors to be active even in their later years. The result is a homeownership situation that allows seniors to age in place. And finally, senior housing co-ops can organize as limited equity cooperatives—co-ops that control the rate of growth in the value of the shares in order to keep the units affordable. While on its face the inability to grow one's equity may seem unattractive, for seniors it isn't necessarily so. They do not necessarily need substantial equity growth. Moreover, by controlling the costs of the units, the units are in greater demand, making it easier for seniors to quickly sell when they need to. In some areas, senior housing co-ops have long waiting lists of potential members.

Past development of senior housing co-ops in rural areas not only demonstrates the feasibility of this housing option, but also high satisfaction among seniors for their new living arrangements. Across the country, there are nearly 60 senior housing cooperatives.

Many of them are clustered in the Midwest, developed by then-Homestead Housing Center, which formed 18 senior housing co-ops in rural Minnesota, Wisconsin and Iowa in the 1990s. Nine Homestead senior housing cooperatives are located in Iowa in the towns of Denison, Estherville, Greenfield, Hartley, Laurens, Hull, New Hampton, Roland and Spirit Lake.

A 2001 survey of 163 senior Homestead residents in Iowa and Minnesota found that their choice to buy a share in the housing cooperatives was driven by two main factors: ease of home maintenance and a desire to stay in the community. Respondents also reported high satisfaction with their housing co-op purchase, reporting a positive impact on their ability to live independently; personal safety; life satisfaction; access to activities and entertainment; happiness; amount of contact with friends; and their personal health. Other surveys have found similar results.

Senior housing co-ops are good for rural communities as well. Seniors are not only active participants in the community; they are significant consumers of goods and services. When seniors leave a community, they not only take with them their lifelong accumulation of assets, they take their banking, shopping and charitable contributions. Perhaps most important, they also take their purchasing power for healthcare and pharmaceuticals, which can have a significant impact on Main Street businesses. The loss of these important healthcare consumers can lead to a decline in the supply of overall healthcare services for the rest of the town's residents.

Additionally, when seniors leave their single-family homes for housing co-ops, they free up that housing stock for younger families who have limited housing choices in rural communities. Among the seniors who moved into the Homestead Housing cooperatives mentioned above, nearly all moved in after selling their former homes.

Since the Homestead senior housing cooperatives were developed in the 1990s, there has been growing interest in developing senior housing cooperatives. I will be meeting with the Iowa Institute of Cooperatives later this year to talk with them about development opportunities in this state. I know their interest in this legislation will be keen.

Mr. Chairman, NCBA strongly supports the Community Homeownership Credit program because we believe it can be a key tool for expanding home ownership through cooperative development in American's small towns. We believe it may be a particularly helpful in spurring development of rural senior housing co-ops—helping fill the growing housing gap facing America's elderly population.

The only recommendation we would add for improvement of the program is to explicitly make organizational development costs part of the eligible basis for the tax credit for those developers of housing cooperatives. These costs—the community, buyer, and lender educational processes, the development of the organization's governance structure and legal governing documents and processes and so forth, all impose real costs on developers. In order to put co-ops on a level playing field with other types of housing development, co-op developers should be allowed to include these costs among the development costs for a housing co-op project. Developing a strong organizational structure for a housing cooperative, senior or otherwise, is as important to the formation of a sound cooperative as the bricks and mortar.

Other Recommendations

NCBA makes two other recommendations for your consideration.

Tax Credits for Co-op Investment

In the category of tax incentives, another significant improvement in federal tax law would be the creation of a tax credit program for farmer-members that make equity investments in majority farmer-owned, value-added agricultural enterprises. Variation of tax credit programs have been adopted in Missouri, Colorado and North Dakota, which offer a credit of between 30 to 50 percent for a farmer's investment of between $15,000 and $20,000. Credits can be sold or applied to existing tax liabilities. A tax credit for farmers investing in value-added ventures would reduce substantially both the risks and cost of investment in value-added cooperatives. NCBA believes this would be a valuable capital generation tool for value-added farmer cooperatives.

Similar tax credits for investment in other types of cooperatives would go far in encouraging greater cooperative development in rural communities. For example, a tax credit for small businesses in rural areas for their initial equity investment in a purchasing co-op could help reduce the financial barriers small rural businesses face in joining national purchasing cooperatives. These purchasing cooperatives help owners of independent Main Street hardware stores, pharmacies, grocery stores, and other small businesses survive and thrive by providing them with the purchasing power enjoyed by larger national chains.

We stand ready to work with you on legislation that would expand investment in all types of cooperatives that can help rural communities prosper.

Maintain and Sustain the Co-op Development Infrastructure

Finally, NCBA urges that statutory changes that spur investment in cooperatives be accompanied by a sound cooperative development infrastructure. In my experience as a cooperative developer, a solid feasibility analysis and sound business plan are among the first capital hurdles startup farmer cooperatives face. And they need access to cooperative development expertise in order to conduct them. While farmers may have access to a variety of consulting services, few business developers have expertise in analyzing markets and developing business plans specifically for member-owned cooperatives. Poor feasibility analyses and unrealistic business plans that don't account for the unique characteristics of member-ownership lead to failed businesses and significant financial losses for farmers.

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Moreover without solid feasibility studies and a complete business plan, both equity investment and debt financing can be nearly impossible to come by. Even with incentives, farmers and lenders are wisely reluctant to take risks on new business ventures that lack a solid business foundation.

The nation's 20 cooperative development centers, including CDS and the Iowa State Value-Added Center, provide the technical assistance farmers and other startup cooperatives need to develop both feasibility analyses and business plans for new member-owned businesses. The centers offer business and organizational expertise in cooperatives that other business developers lack. And they are innovators—they pioneered development of new generation, value-added agricultural cooperatives. They also provide technical assistance to other types of cooperatives, including rural senior housing co-ops and many others.

USDA's Rural Cooperative Development Grants program provides core funding for these Centers. Unfortunately, funding levels have remained largely flat over the years. And for 2005, the House of Representatives cut the funding for this valuable program by $1 million. We urge your support for funding for the RCDG program at $7 million in FY2005 and for ongoing growth in the program. The RCDG program is critical for maintaining and sustaining the cooperative development infrastructure. Without that infrastructure, cooperative development will be significantly hampered.

Mr. Chairman, on behalf of NCBA, we thank you for this opportunity to share our views on the Heartland Investment and Rural Employment Act. We believe that the cooperative and housing provisions of this bill will go far in advancing cooperative development and business expansion in rural communities, creating jobs, income and opportunity. And again, we thank you for your ongoing support for cooperatives and your leadership in developing and promoting the policies that advance them.

Appendix A

Cooperative Development Centers

Arkansas Rural Enterprise Center
38 Winrock Drive
Morrilton, AR 72110-9537
Phone: (501) 727-5435 ext. 229
Fax: (501) 727-5499
URL: http://www.winrock.org/arec
Contacts:
Donna Uptagrafft, Program Associate
dju@winrock.org

Cooperative Development Services
30 East 7th Street
Suite 1720
St. Paul, MN 55101
Phone: (651) 287-0184
Fax: (651) 265-3679
URL: http://www.cdsus.coop
Contacts:
Kevin Edberg, Executive Director
kedberg@aol.com

Cooperative Life/Cooperative Development Institute
277 Federal Street
Greenfield, MA 01301
Phone: (413) 774-7599 ext. 111
Fax: (413) 773-3948
URL: http://www.cooplife.coop
Contacts:
Lynn Benander, CEO
info@cooplife.com
Bob Rottenberg, Executive Director
brottenberg@cooplife.com

Dakota Development Center; North Dakota Association of Rural Electric Cooperatives
P.O. Box 727
Mandan, ND 58554
Phone: (701) 663-6501
Fax: (701) 663-3745
URL: http://www.ndarec.com
Contacts:
Bill Patrie, Rural Development Director
Susan L. Davis, Rural Development Coordinator
sdavis@ndarec.com

Federation of Southern Cooperatives
P.O. Box 95
Epes, AL 35460
Phone: (205) 652-9676
Fax: (205) 652-9678
URL: http://www.federationsoutherncoop.com
Contacts:
John Zippert, Director of Development
fscepes@mindspring.com
Ralph Paige, Executive Director

Indiana Cooperative Development Center
150 W. Market
Suite 414
Indianapolis, IN 46024
Phone: (317) 232-8765
Contacts:
Kathy Altman
kaltman@commerce.state.in.us

Iowa State University Value-Added Agriculture Program
Iowa State University Extension
1111 NSRIC
Ames, Iowa 50011
Phone: (515) 294-0648
Contacts:
Mary Holz-Clause
mclause@iastate.edu

Kentucky Cooperative Development Center
411 Ring Road
Elizabethtown, KY 40456-0267
Phone: (270) 763-8258
Fax: (270) 763-9927
URL: http://www.kccd.org
Contacts:
Larry Snell, Executive Director
lsnell@kccd.info

Keystone Development Center
1238 South Garner St.
State College, PA 16801
Phone: (215) 292-1461
Fax: (814) 238-5059
URL: http://www.kdc.coop
Contacts:
Kate Smith, Executive Director
smith@kdc.coop

Mississippi Center for Cooperative Development
233 E. Hamilton Street
Jackson, MS 39202
Phone: (601) 354-2750
Fax: (601) 354-2777
URL:
http://www.cooperativedevelopment.org
Contacts:
Melbah Smith, Director
mscenter@mindspring.com
Ben Burkett, State Coordinator

Missouri Farmers Union Family Farm Opportunity Center
325 Jefferson Street
#100 A
Jefferson City, MO 65101
Phone: (573) 659-4787
Fax: (573) 659-4787
URL: http://www.missourifarmersunion.org
Contacts:
Russ Kremer, President
russmfu@earthlink.net

Montana Cooperative Development Center
P.O. Box 3027
Great Falls, MT 59403
Phone: (406) 268-2644
URL: http://www.mcdc.coop
Contacts:
Ty Duncan, Director
tduncan@mcdc.coop

Nebraska Cooperative Development Center
217 HC Filley Hall
University of Nebraska-Lincoln
Lincoln, NE 68583-0922
Phone: (308) 995-3889
Fax: (308) 995-3889
URL: http://www.ncdc.unl.edu
Contacts:
Lynn Lutgen, Executive Director
llutgen1@unl.edu
Jim Crandall, Cooperative Development Specialist
crandall3@unl.edu

Northwest Cooperative Development Center
1050 Capitol Way S., Suite B
Olympia, WA 98501
Phone: (360) 943-4241
Fax: (360) 357-6085
URL: http://nwcdc.coop
Contacts:
Diane Gasaway, Project Manager
nwcdc@qwest.net

Ohio Cooperative Development Center
1864 Shyville Road
Piketon, OH 45661
Phone: (740) 289-2071
Fax: (740) 289-4591
URL: http://www.ocdc.osu.edu
Contacts:
Travis West, Co-op Development Program Coordinator
west222@ag.osu.edu

Rocky Mountain Farmers Union Cooperative Development Center
10800 E. Bethany Drive
Fourth Floor
Aurora, CO 80014-2632
Phone: (303) 752-5800
Fax: (303) 752-5810
URL: http://www.co-ops.org
Contacts:
Bob Mailander, Director
center.director@co-ops.org

South Carolina Center for Cooperative Business Development
South Carolina State University
P.O. Box 7568
Orangeburg, SC 29117
Phone: (803) 533-3682
Fax: (803) 533-3639
Contacts:
Dr. Suresh R. Londhe, Director
londhe@scsu.edu

South Dakota Value-Added Agriculture Development Center
416 Production Street, North
Aberdeen, SD 57401
Phone: (605) 352-9177
Contacts:
Dallas Tonsager, Executive Director
dptsd@hur.midco.