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**Food Co ops as Limited Liability Companies**

Food co ops, that provide natural and organic food products to consumers at the retail level, have some characteristics that diverge from more traditional business models. Cooperatives (co ops) are best understood as member owned, member governed businesses that operate for the benefit of their members. Members pool resources to bring about economic results that are unobtainable by one person alone.<sup>1</sup> The most common form of co ops, consumer co ops, are organized by individuals who seek to purchase goods and services, and are the largest kind of cooperative. With this model,

ds, in which profits are returned to  
ps.

<sup>2</sup> Grocery co ops, typically providers of natural and organic food products, are one type of cooperative businesses that are currently operating in Vermont.<sup>3</sup>

A cooperative business model can fall under several categories when deciding how to structure the organization. One possibility can be registering with the state as a limited liability company (LLC), if a partnership or traditional corporation does not suit the cooperative's needs.<sup>4</sup>

Limited liability companies are companies whose structure has elements of both a partnership

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<sup>1</sup> Elizabeth Archerd. "What are Co-ops." National Cooperative Grocers Association (NCGA). <http://www.ncga.coop/about/coops> (accessed January 31, 2011).

<sup>2</sup> National Cooperative Business Association (NCBA). "Consumer Cooperatives." <http://www.ncba.coop/ncba/about-co-ops/co-op-types/consumer-cooperatives> (accessed January 31, 2011).

<sup>3</sup> "Food Retail." National Cooperative Grocers Association (NCGA). <http://www.go.coop/kinds-co-ops/food-retail>. (accessed February 3, 2011).

<sup>4</sup> Andrew McLeod. "Types of Cooperatives." Northwest Cooperative Development Center. <http://www.nwcdc.coop/Resources/CSS/CSS01Types.pdf> (accessed February 4, 2011).

and corporation. Registering with the state as an LLC can offer its members and managers "limited liability" for the obligations of the company.<sup>5</sup>

An LLC is treated as a corporation for purposes of limited liability and as a partnership, if properly structured, for purposes of taxation. LLC members can fully participate in management decisions, while remaining protected from personal liability. An LLC can be run by a manager or directly by its members. These qualities make LLCs more attractive to some business people as compared to partnerships or the various forms of corporations available in the state.<sup>6</sup>

In 1996, an LLC law took effect in Vermont which allowed the formation of limited liability companies in the state (11 V.S.A. § 3001.). All other states permit the formation of LLCs, and in Vermont an LLC may be formed for any purpose, with the exception of a bank, savings and loan association, credit union, insurance company, or railroad company.<sup>7</sup>

Currently, no co ops in Vermont are registered as an LLC. Other states, such as Wyoming, Tennessee, Iowa, Minnesota, Wisconsin, and Nebraska, have enacted legislation to better handle cooperatives in their respective states. These states have proposed an alternative business model with regards to cooperatives. This alternative to the LLC for cooperatives is being termed a Limited Cooperative Association (LCA). Structured like a hybrid model between an LLC and the cooperative structure, an LCA allows the distribution of net earnings on the basis of investments as well as patronage. The new statutes allow an LCA to either be taxed as a partnership or as a corporation.<sup>8</sup> Essentially a cooperative's incentive to gain LCA status would be to attract equity from investors who do not patronize the cooperative, therefore providing an additional source of equity capital to the business.<sup>9</sup>

### **Food Co ops in Vermont**

- Adamant Co op, Adamant.
- Brattleboro Food Co op, Brattleboro. First certified organic retailer in Vermont.
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member/owners. A member elected Board of Directors represents the member/owners.<sup>10</sup>

- Hunger Mountain Co op, Montpelier.<sup>11</sup>
- Kingdom County Market, St. Johnsbury.
- Middlebury Natural Foods Co op, Middlebury.
- Plainfield Co op, Plainfield.
- Rutland Area Food Co op, Rutland.
- South Royalton Market, South Royalton.
- Springfield Food Co op, Springfield.
- St. J Food Co op, St. Johnsbury.<sup>12</sup>
- Upper Valley Food Co op, White River Jct., Vermont.
- East Warren Community Market, Warren, Vermont.<sup>13</sup>

**Co ops Across Jct.,**

food for cheaper prices. It is still a volunteer and member based cooperative and it currently run by the Berkshire Cooperative Association.<sup>15</sup>

### **Rhode Island**

Rhode Island seems to have a limited selection of food co ops but one such cooperative is the Alternative Food Co op that grew out of a grassroots organization in 1970 (Alternative Food Co op, Wakefield, Rhode Island).<sup>16</sup>

### **Minnesota**

Minnesota has one of the first co ops to reincorporate their cooperative to become a limited cooperative association. St. ,vt30Td@000020.2e0Td@003Tj/TT01t@003Tj/TT010c/C2\_Tj/TT01Tf@.000oC2\_7Tf0.8