

THE POTENTIAL FOR CO-OP DEVELOPMENT TO ASSIST SENIORS IN RURAL AMERICA

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One of the greatest risks to rural communities is that their senior citizens move away. Seniors are significant consumers of local goods and services. If they leave a community, they not only take with them their lifelong accumulation of assets, they take their banking, shopping and charitable contributions, as well as their purchasing power for healthcare and pharmaceuticals.

One of the greatest risks to senior citizens in rural areas is that they will lose access to basic goods and services in the communities in which they live. Usually living on fixed incomes, they look for affordable choices for all their consumer purchases, from housing to health care. Those who are mobile may be able to drive to neighboring communities or urban areas to make their purchases or to get health care services; those who still have family or networks of friends in the area also may have good access to more options; but as family members move away and age or failing health make travel more difficult, many senior citizens become more and more dependent on the products and services that are available and affordable closest to where they live. Co-ops can help to make that happen.

Many in rural America still only think of cooperatives in the tradition sense – agricultural, electric, and telephone. Even among these people who are familiar with one form of cooperative many have no idea that the cooperative approach also works for housing, health care, transportation and retail stores. But there are many of these cooperatives already providing significant benefits to senior citizens living in rural areas. Several examples:

- Small community-owned hospitals are valuable to the entire community, but they are especially important for the very elderly and the frail residents who aren't mobile enough to use the services of larger health care facilities in neighboring urban areas. What may enable many of these hospitals to keep their doors open is their membership in a national purchasing cooperative for community-owned hospitals called VHA, Inc. With 2,200 hospital member owners, VHA helps its hospital members train care providers and control costs by negotiating prices for equipment, supplies and services from preferred vendors.
- On a smaller scale, these hospitals may also get valuable service from their membership in local or regional health services cooperatives that provide personnel services, billing and other services to their member hospitals. Organizations like Rural Wisconsin Health Cooperatives (RWHC), in Sauk City, WI, help small rural hospitals identify and recruit healthcare professionals, as well as perform such services for its members as insurance reimbursement services and doctor credential verification.
- There are the independent drug stores and local pharmacies in rural communities. Many of these small businesses have been struggling to compete with the big box discount stores 20 or 30 miles away. If they are still in business, it is probably due to their membership in a pharmaceutical supply purchasing cooperative. The largest, The Pharmacy Cooperative, gives its 650 independent drug stores and pharmacies in 22 states a voice with manufacturers, vendors and the government. Prices have been negotiated that are at or better than prices offered by the chains.
- Considered high risk by insurance companies, a significant number of self-employed farmers and their families cannot afford to have private health insurance. There may be a solution to this phenomenon for future generations of seniors who come from the farming community. The latest attempt to address this problem has both federal and state dimensions. Co-op Care, signed into law in last December by President Bush, dovetails with laws passed in Wisconsin and Minnesota that establish regional health insurance purchasing cooperatives for farmers and rural small business owners. When the program is operational in the spring of 2005, members of these cooperatives will be able to negotiate directly with insurance plans for affordable coverage for themselves and their families.
- A number of states and groups of states have created innovative state and regional drug purchasing cooperatives and purchasing pools to control the costs of publicly supported health programs. Since 1985, Minnesota has had a pharmacy purchasing cooperative for use by state agencies, cities, townships and counties.

In Iowa, a drug purchasing cooperative established as a federal demonstration project, available to all Medicare-eligible seniors, saved its members nearly \$1.9 million in the first year. In New England and in the South, multiple states have formed purchasing pools to achieve similar reductions in cost.

- Unfortunately, as rural economies struggle and as larger chains become regional magnets for consumer shopping, too many small towns are losing their mom-and-pop retail stores. Many residents can drive to neighboring communities to shop, but many of the community's less mobile residents, including many seniors, are left with no place to buy the basics. Here too, a cooperative can provide a solution, as it has in Barneveld, WI, population 1,088. After they lost their last remaining grocery store in 2001, a motivated group of citizens decided to do something about it. In collaboration with Cooperative Development Services, one of the USDA-funded cooperative development centers, residents engaged in a feasibility study and business plan for a cooperative grocery store. Members made loans to the coop for the initial investment and the local bank provided additional debt financing. In July 2004, the community celebrated the opening of its new cooperative grocery store. The 324 owners live in Barneveld and decisions about the business will be made locally, not by investors or managers in a distant city. First year sales are projected at \$1.2 million.

As these examples illustrate, national, regional and local member-owned cooperatives already contribute to the stability of the rural economy and provide vital services in rural communities.

New Cooperative Development That Would Benefit Seniors in Rural Areas

Two additional areas – housing and home care services -- are currently generating a great deal of interest in the ability of cooperatives to supply senior citizens with good options. While both hold great promise, they also face significant challenges.

First, Housing... Rural seniors face unique housing challenges. Despite high ownership rates, the housing stock in which most seniors live tends to be significantly older. Although housing costs in rural areas tend to be lower than in cities, many seniors have difficulty meeting even these lower housing costs. For a significant number of them, housing costs account for almost a third of their monthly income. For low income seniors who rent, the situation can be even worse.

For all seniors, the day will come when they have to decide how much longer they can maintain their homes and their independence. In most rural communities today, seniors who can no longer stay in their homes have limited choices: move in with family, which may mean leaving the community; move into rental housing, thereby depleting their equity; or, if any exist in the immediate area, go to an assisted living or nursing facility and begin to deplete their life savings.

If asked, many seniors still would have a strong preference to remain independent in their own homes as long as possible; however, many also would welcome an opportunity to give up the single family home if they felt they had an affordable better option that was different than traditional senior facilities. This is the group of seniors who would find cooperative housing an interesting option.

Among the attractive member- benefits of a senior housing cooperative, are:

- Lower barriers to entry. Members who might not qualify for an individual loan can still become homeowners as part of the cooperative's blanket loan.
- Maintain equity. Membership in the cooperative allows seniors to retain equity, rather than spending it on a long-term care facility or on rental housing.
- Independence. Allow seniors to live independently, but with some supportive services
- Flexibility. The coop members control the range and cost of services that will be provided. Therefore, the cooperative can be designed to meet the specific needs of its members.
- Cost Control. If members want the housing to remain affordable, of particular concern to senior citizens on fixed incomes, they can create a limited-equity cooperative where the growth in the sale price of units is constrained.

- Community. Allows seniors to create a natural community in which to age in place, eliminating the isolation that can accompany old age in rural areas.

Cooperative housing that would be appropriate for the elderly can take many forms.

- It can be new construction, like the bulk of the cooperative housing that exists primarily in the upper Midwest. Nationwide, there are currently 60 senior housing cooperatives.
- In some communities, vacant or historic buildings can be converted to cooperative housing. That has happened in Lanesboro, a small town in southeastern MN that is experiencing a growth spurt due to a rapidly expanding tourism market. Northcountry Cooperative Development Fund, a Minneapolis-based, USDA-funded cooperative development center, went to work, secured local property tax breaks from the municipality and rehabilitated a landmark building that has been converted to a 21- unit housing cooperative.
- It could also take the form of conversion of rural rental property to cooperative ownership. Much attention is currently being given to the 15,000 properties in USDA's 515 program. With 58% of the 400,000 plus units occupied by the elderly or disabled, this is certainly a current source of housing for many senior citizens. Whether or not this housing is suitable for cooperative conversion is still unclear. Most properties are small, making it difficult to achieve economies of scale. Most residents have an average annual income at roughly \$9,000, and it's doubtful that they would be able to live in the units, regardless of the structure, without rent subsidies. Some suggest that formation of mutual housing associations might at least provide residents with a voice in the management of the property.
- Another interesting source of cooperative housing results from the conversion of manufactured housing parks (formerly known as mobile home parks) to cooperative ownership. Most of this has been happening in Florida and New Hampshire, but it could be an option in other parts of the country. The leader in this work is the New Hampshire Community Loan Fund and, today, that state has 65 cooperative manufactured housing parks, representing 3,200 housing units, with an average of 5 to 8 co-op conversions each year. Many of the residents are senior citizens. The conversion to co-op not only helps owners gain control over the land and upgrades to the grounds, but the Fund also has a loan program that helps coop members upgrade to more energy efficient manufactured housing stock.

Barriers to Co-op Housing in Rural Areas

There are several significant barriers to extensive development of senior cooperative housing in small towns and rural areas.

First, declining or stagnant rural areas won't have a real estate market to support it. Senior citizens need buyers for their single family homes for them to become member/owners of a housing cooperative. If the community is growing and there is demand for single family housing, this won't be a problem.

Second, it may be difficult to assemble in one location the critical mass of individuals interested in being part of a cooperative housing project.

Third, even if the local economy is strong, rural buyers and bankers have little experience with housing cooperatives. The concept is foreign to them. Promoting understanding and buy-in to the coop housing concept among potential buyers and lenders takes considerable time, effort and resources.

Fourth, it's hard work to be a member of a housing cooperative. Once a critical mass of buyers is found, the buyers will need to educate themselves on cooperative governance, bylaws and governing documents of the coop must be drafted and a governing board must be established and functioning even before residents move in. It's hard work that would appeal to some seniors and intimidate others. This is where the work of the cooperative development centers can be so valuable.

Second, Home Care Services... A major challenge in rural America is making affordable home health care services available for the elderly who either can't afford to move out of their houses or who have no interest in leaving their homes. The situation is complicated by the fact that many rural elders have inadequate retirement benefits and lack adequate private health insurance. Even if they could afford a nursing home, in some areas there are so few nursing homes that the elderly may have no choice but to stay in their homes if they want to stay in the community. Instead, they rely on rural aging services networks that haven't always been able to meet the population's needs for in-home health nursing, homemaker and chore services, respite programs, adult day care, adult foster care and hospice care.

What services have been available have been fraught with problems and questions about the consistency and quality of care. A major problem has been the stability of the workforce. Low wages, worker isolation, lack of benefits and lack of opportunities for career advancement all contribute to exceptionally high turnover rates.

Home care cooperatives could be a solution. There are several basic approaches that have received the most attention: creation of a worker-owned business; conversion from a private agency to a cooperative; or even a hybrid in which ownership is shared by clients and workers. Some of these approaches are currently being tested in a variety of rural settings across the country through the USDA Home Health Care Cooperative grant program that was implemented last year.

As an example of a rural worker-owned cooperative, let me describe Cooperative Care, a co-op that was developed 4 years ago in rural central Wisconsin under the guidance of USDA's cooperative development field staff.

Faced with the need to revamp its delivery system for home health care services for its elderly and disabled public pay clients, leaders of Waushara County's Human Services Agency researched the worker co-op model, consulted a number of experts, involved community leaders and engaged upon a bold experiment. What resulted was Cooperative Care, whose 70 members were already experienced providers of services under the old system, but now worked under a contract with the county to deliver the services. The big difference was that these caregivers were no longer independent providers, they were now member/owners of a cooperative business.

As members of the cooperative they now had a role in decision making, opportunities for professional interaction with fellow members, a benefits package, workers compensation coverage, patronage refunds and a living wage. Initially, the contract with the county made up 90% of the coop's business, which provided them with time to develop a base among private pay clients, respite care, hospice care and companion care. It should be noted that there were no competing providers of services in Waushara County, which may, in fact, be similar to many rural areas where home care services are either scarce or non-existent. Feedback from care givers, clients and members of the community is extremely positive.

There are many lessons still to be learned from pilot programs like Cooperative Care. It will be important to better understand the business costs, the need for worker training and the proper mix of services to make the business viable. We also look forward to being able to compare the results of the USDA home care pilot programs established last year. We encourage USDA to add funding for a research component to this program so that we can fully understand the strengths and weaknesses of these various approaches. If home care cooperatives are to be a real opportunity for rural seniors, it's important to identify the parameters for success and provide guidance to those who want to develop additional home care cooperatives.

Source of Expertise for Cooperative Development

Much good cooperative development work has been done thanks to three primary sources of expertise:

- First, USDA cooperative development specialists in DC and scattered through the USDA network of field offices. They do terrific work, but there aren't enough of them devoted full time to cooperative development.
- Second, the faculty and staff of college and university-based cooperative development research programs are also a tremendous resource and often a source of new ideas. And,
- Third, the network of cooperative development centers that are supported through USDA's Rural Cooperative Development Grants Program. Twenty-one centers have banded together to organize themselves as a network called CooperationWorks! This allows them to collaborate on initiatives and share professional expertise.

Since they organized less than 10 years ago, CooperationWorks! member centers have helped develop over a hundred new cooperative businesses, accounting for countless member services and more than 1,700 new rural jobs.

Where do we Go From Here?

There is much good work yet to be done and precious few resources to get the job done. But even with today's tight budget situation, we need to be sure that we don't lose ground.

- **We need continued collaboration**

Some of the best recent work has involved collaboration between USDA's own co-op development specialists and the experts in the USDA-supported cooperative development centers. That collaboration needs to continue if we are going to see these cooperative opportunities become reality. We also need to be sure that collaboration involves new players in the public and private sectors. We need to educate and engage the economic and rural development experts in other federal agencies. In places like HHS, HUD, Interior, SBA, Commerce we need to help them understand how cooperatives can help them achieve their rural program priorities.

- **We need education**

There is a basic lack of understanding at the local level about how cooperatives work. Too many local citizens and local officials don't understand cooperatives and don't think of them as a solution to local needs. Local bankers don't understand share loans, local lawyers don't understand the governance structure of the cooperative model, local investors don't understand the structure of a housing cooperative.

- **We need more cooperative developers**

We need more good people to choose cooperative development as a career path. We need more experts who understand cooperatives, how to form them and what are the legal, financial and organizational issues involved with building such a member-owned business. We also need more expertise in generating solid feasibility studies and complete business plans, without which both equity investment and debt financing will be nearly impossible to get. Even many USDA field staff may be limited in what they know about the wide array of applications of the cooperative business model. And cooperative development professionals need to continue to learn from each other.. Towards that end, CooperationWorks! has developed a professional development training program to further expand the expertise and knowledge of co-op development practitioners.

- **And last, but not least, we need to maintain, if not increase, federal funding for cooperative development**

The core funding to support this work is the RCDG program that provides funds for the work of the cooperative development centers. The current level of funding for the RCDG program already severely restricts the centers' ability to help cooperatives be key players in the economic revival of rural America. It's unfortunate that the President's 2005 budget suggests a \$1 million cut from the current \$6 million appropriation. If the centers are to continue to develop the potential for cooperatives to meet the needs of rural communities, then more, not less, funding is needed for the RCDG program.

Thank you very much.

The Cooperative Development Foundation is a 501(c)(3) non-profit, based in Washington, DC, that was created 60 years ago to promote community, economic, and social development through cooperative enterprises. (www.cdf.coop). CDF accomplishes that mission in four primary ways: raising and distributing funds for economic and cooperative development projects; building partnerships that create cooperative solutions to today's economic problems; providing scholarships to help cooperative staff and board members be more knowledgeable on how to run a successful cooperative business; and raising awareness of the role cooperatives play in the nation's and world's economies. CDF is affiliated with the National Cooperative Business Association (NCBA).