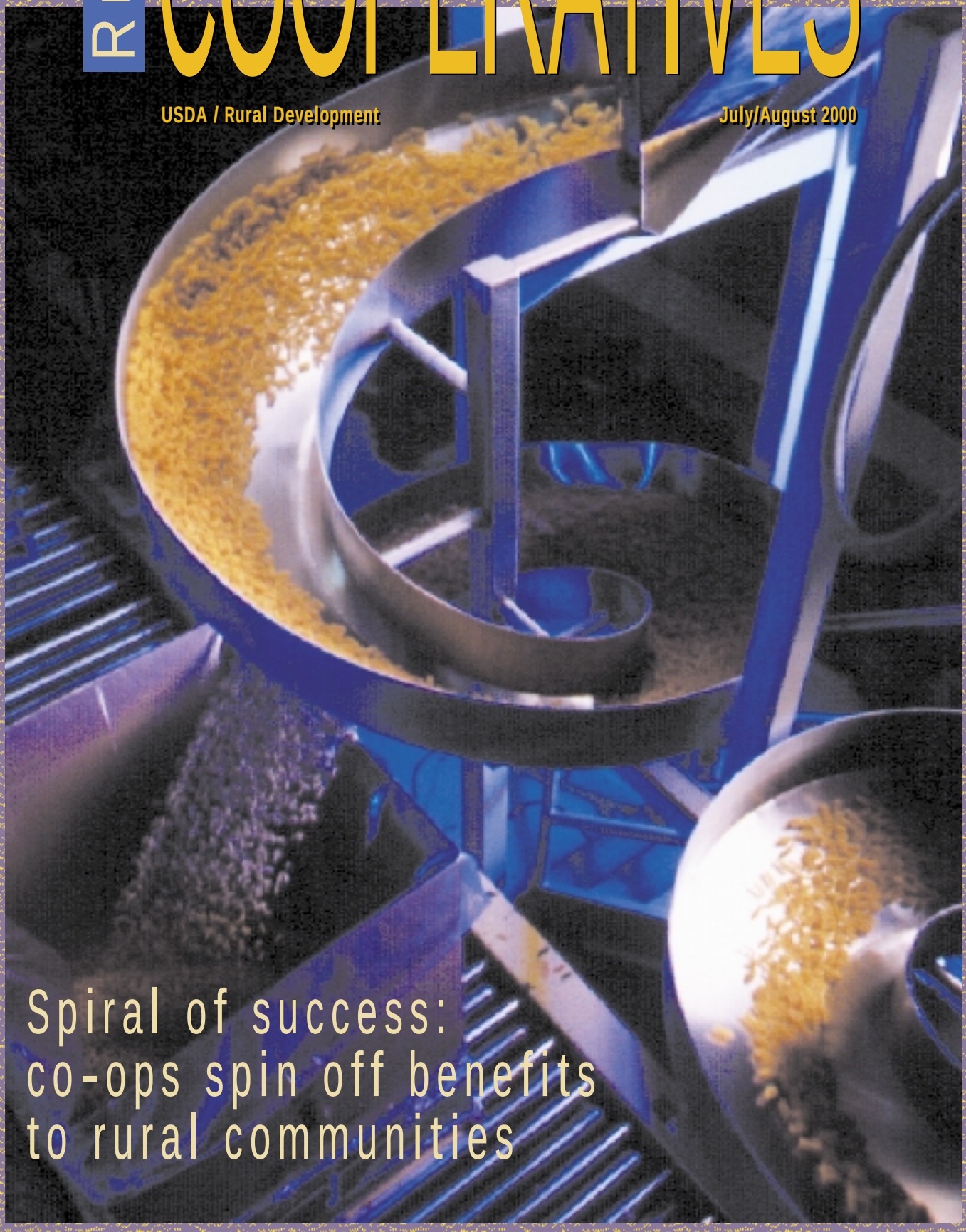
Rural COOPERATIVES

USDA / Rural Development

July/August 2000



Spiral of success: co-ops spin off benefits to rural communities

Putting our eggs in more than one basket

Rural America is far less dependent upon production agriculture today than it was when I was a girl growing up on a farm in Indiana. In those days, when you graduated from high school, you had two basic life choices to make: A) take the steps that would eventually enable you to assume control of your family's farm, or B) kiss the farm goodbye and move to town to find your future.

Today, for many rural people choices are increasing. That's because every year, an increasing number of light industry, high-tech and service industry firms are relocating all or some of their operations to rural communities.

These businesses have found that rural America is not only a great place to live, but a great place to do business. A ready supply of highly motivated workers with a strong work ethic is one of the major attractions. These firms also have learned that many suburban and urban workers are anxious to escape the "rat race" of city life.

Improvements in the rural infrastructure — telecommunications, water and sewer, transportation, etc.— are helping to fuel this movement. The programs of USDA Rural Development are playing a major role in accelerating the rate of business diversification in rural areas and in helping electric cooperatives and others to finance improvements in rural infrastructure. A little more than 65 years ago, President Franklin Delano Roosevelt set the stage for the transformation of rural life when he created USDA's Rural Electrification Administration. A series of articles in this issue (beginning on page 6) provide an overview that shows how important this act was to the nation, and how vital these programs remain for the future of the rural population.

Few in agriculture would deny that this trend of rural economic diversification is a healthy one. It can even help hold families together, as in the case where one child stays home to run the family farm while her brother buys a nearby house and takes a job at an Internet service provider that located in the county seat. Even if the trend toward fewer, larger farms stops tomorrow (and few believe that it will), we need this type of economic diversification to prevent many rural areas from becoming de-populated.

But does this mean that the rural economy is no longer heavily dependent on the farm economy? Absolutely not! Without a strong, thriving farm sector, the overall rural economy will suffer severely in most regions. The fate of farmers and farmworkers is inexorably linked with the general fiscal health of rural America.

Value-added processing cooperatives are another vital link in this chain of economic diversification. They represent a way to achieve diversification and vertical integration within the farming industry. These cooperatives have the power to transform a community from one that is solely a producer of raw commodities into a producer of finished, or partially finished, goods. These cooperatives not only generate higher income for farmers, they create jobs and boost the local tax base. They also help attract "spinoff" businesses, new housing, schools and community facilities to rural communities.

I hope you'll read the article in this issue (page 16) based on five case studies, funded under a cooperative research agreement from the Rural Business-Cooperative Service of USDA Rural Development. It provides insight into how cooperatives benefit rural communities. These studies include a look at how South Dakota soybean growers — tired of shipping their raw crop out of town and then buying back the soymeal that was processed from it in other states — opened their own soybean processing plant. You'll also learn why Missouri corn growers decided to go into the ethanol business and how changes in pork production methods are helping an Iowa farm supply co-op gain new economic strength. In each of these and the other cases cited, the researchers found that the rural communities have benefited greatly from these new business ventures.

So let's continue placing our economic eggs in more than one basket, without ever forgetting that agriculture is still the foundation of the rural economy — and will be for a long, long time to come.

Jill Long Thompson,
Under Secretary, USDA Rural Development

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USDA United States Department of Agriculture

FEATURES

DEPARTMENTS

On the Cover:

Pasta spirals down a loading chute for loading and shipping from Carrington, S.D., to food ingredient customers across the nation. Cooperatives such as Dakota Growers Pasta Co. spin off numerous economic and social benefits to rural communities, according to a new USDA-sponsored study. Story on page 16. Photo courtesy Dakota Growers Pasta Co.

Tri Valley Growers files Chapter 11 bankruptcy

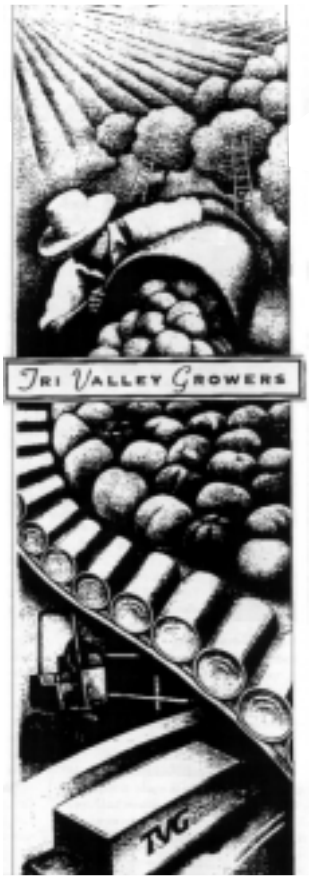
Dan Campbell,
Managing Editor

Tri Valley Growers, for 68 years one of the nation's premiere fruit and vegetable cooperatives, filed for Chapter 11 Bankruptcy on July 10 after accumulating more than $200 million in debts during the past three years. Even though the co-op's financial status has been precarious for several years, the bankruptcy announcement sent shockwaves through California's agriculture industry and could have severe consequences for the co-op's 500 grower-members, 11,000 seasonal and year-around employees, businesses that trade with the co-op, and farm-dependent business throughout the state.

Tri Valley announced that it plans to idle two of its tomato-processing plants. That move would leave some 500,000 acres of processing tomatoes without a home. With the canned tomato industry in an over-supply situation, much of that crop may have to be disked under.

Tri Valley will also process a reduced amount of its members' fruit crops this summer. It will accept only 70 percent of its members' pear crop, 85 percent of their peaches, 33 percent of their tomatoes and 85 percent of their grapes. Growers were also told that they would only receive 70 percent of the payment they had expected for their 1999 crops, and would receive only 60 to 70 percent of the market price for the reduced percentage of their 2000 crop processed by the co-op.

"This will definitely put some growers out of business. It's going to cost many low-income workers their jobs and set off a chain reaction that will hurt farm-related businesses throughout the state," said Robert Hansen, manager of the Suisan Valley Fruit Growers cooperative, a farm supply co-op with many members who ship their fruit to Tri Valley. The impact of so much fruit and tomatoes entering the market "without a home" could cause commodity prices to drop to "fire sale" levels, he warned.



The state's cling peach growers association responded with a plan to pay members to pull out some orchards. Industry groups also launched an effort to urge USDA to ease the situation by buying more fruit and tomatoes. At press deadline for this issue, USDA had just formed a special task force under Deputy Secretary Richard Rominger to study the situation.

Jeffrey P. Shaw, Tri Valley president and CEO, said the Chapter 11 filing "is our best path for the continuation of our company's operations and services." Unlike a Chapter 7 bankruptcy, which provides for the liquidation of a failing business, Chapter 11 is meant to provide protection from creditors to allow time for a business to reorganize its operations, including plans for paying creditors as much as possible. Shaw's letter to member-growers cited examples of other well-known corporations that have emerged successfully after a Chapter 11 filing, including Texaco, TWA, America West, Continental Airlines, Toys 'R' Us and 7-11 stores.

However, according to a report in the July 12 *Modesto Bee* newspaper, Shaw told growers at a private meeting that there is no hope of saving the co-op, which is instead gearing its efforts to process as much of this year's crop as possible and then seek a buyer for its operations. Indeed, the credit plan being worked out with the bankruptcy court reportedly stipulates that the company must be sold by this Feb. 1.

Tri Valley cans about half of the nation's peaches and apricots, and a significant share of the canned tomatoes, fruit cocktail, pears and other fruit and vegetable products. There is no way other processors can absorb so much tonnage this season, so an immediate cessation of Tri Valley operations would be "a catastrophe for California agriculture" and could even impact crop prices in other states, said Randall Torgerson, deputy administrator for USDA's Rural Business-Cooperative Service. Even the reduced operations being contemplated at press time will exact a heavy toll on the industry, he said.

As recently as May, press reports from California indicated that the struggling co-op was finally beginning to see some signs of improved opera-

tions. In late June, the co-op was still denying rumors of impending bankruptcy. But then the co-op's main supplier of canning material — Crown, Cork and Seal — declined to continue doing business with the co-op after it could not obtain a secured debt position equal to the co-op's banks. That action, in turn, caused the co-op's banking consortium to reduce a loan package for the 2000 canning season from $325 million to $270 million. The result "was like offering seven bags of feed to a hungry horse that requires 10 bags of feed to work efficiently," said Terry Barton, president of the California Pear Growers association.

These two actions came as a shock to co-op leaders, who, until that point, had been pleased with the progress being made to put their house back in order. "We had reduced our short-term debt by $60 million, cut inventory by $70 million and significantly improved our levels of service," Shaw said. But, he noted, "Clearly, the problems associated with the canned tomato market have hampered our progress."

Barton, Hansen and other representatives of the pear industry traveled to Washington, D.C., in mid-July to seek USDA help in easing the crisis. They suggested that USDA purchase 120,000 tons of raw pears and 1 million cases of canned pears, and that it offer non-recourse loans to cover the $30 million shortfall their growers suffered on the 1999 crop. They also urged USDA to help secure a loan guarantee to cover the $55 million shortfall in credit TVG had been seeking.

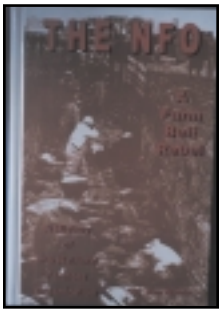
On July 21, Vice President Al Gore announced that USDA would purchase 1.4 million cases (64 million pounds) of pears to help struggling farmers. Purchases are made on a low-bid process (call 202-720-4517 for details). The canned pears will be donated to domestic food assistance Programs, including the National School Lunch program, which provides meals to 27 million school children each day.

"Many growers are deciding whether it makes sense to pick this year's crop given uncertainties in the marketplace," Gore said. "This purchase will reassure growers and make sure the pears are used to provide nutritious meals for schoolchildren and needy families rather than simply going to waste."

The Tri Valley situation has also left "an enormous surplus of tomatoes," according to John C. Welty, executive vice president of the California Tomato Growers Association (CTGA), a member-owned bargaining association. CTGA has requested that USDA agree to make an emergency purchase of $40 million to $50 million worth of surplus canned tomatoes under its Section 32 program. A purchase of this size would "effectively remove surplus tomatoes, provide a degree of relief to Tri Valley Growers and improve overall conditions in the industry," said Welty. California supplies 95 percent of the nation's processed tomatoes and 40 percent of the world's supply.

Shaw, who in March 1999 succeeded Joe Famalette and an interim manager, said the co-op's attempts to return to profitability have been stymied in large part by unfavorable, long-term contracts, an industry-wide oversupply of tomatoes, and processing plants running under capacity. Despite these challenges, he said the co-op had been making major progress in key areas this year prior to the cutback on its operating loan. ■

History of NFO charts farm protest movement



Don Muhm, retired farm reporter for the *Des Moines Register*, has written a book that chronicles the history of the National Farmers Organization from its inception in the mid-1950s through the close of the 20th century. The book, *The NFO: A Farm Belt Rebel, The History of the National Farmers Organization,"* is published by Lone Oak Press, Red Wing, Minn.

Muhm's book covers events surrounding the organization throughout his career covering the farm beat in Iowa and nearby Midwestern states. This includes the NFO's origins as a farm protest movement, and later maturation into a combination farm organization/cooperative led by Missouri farmer Oren Lee Staley. It advocated massive public demonstrations to drive the plight of farmers home to the public.

Muhm's pictures of hog shootings and milk dumping are included. Others show mass meetings and organizational leaders who have served the organization. Later cooperative marketing initiatives in the post-Staley era are also discussed, along with financial challenges the organization has constantly endured.

USDA Rural Development supported writing of this manuscript through a cooperative agreement with the Department of Economics at Iowa State University.

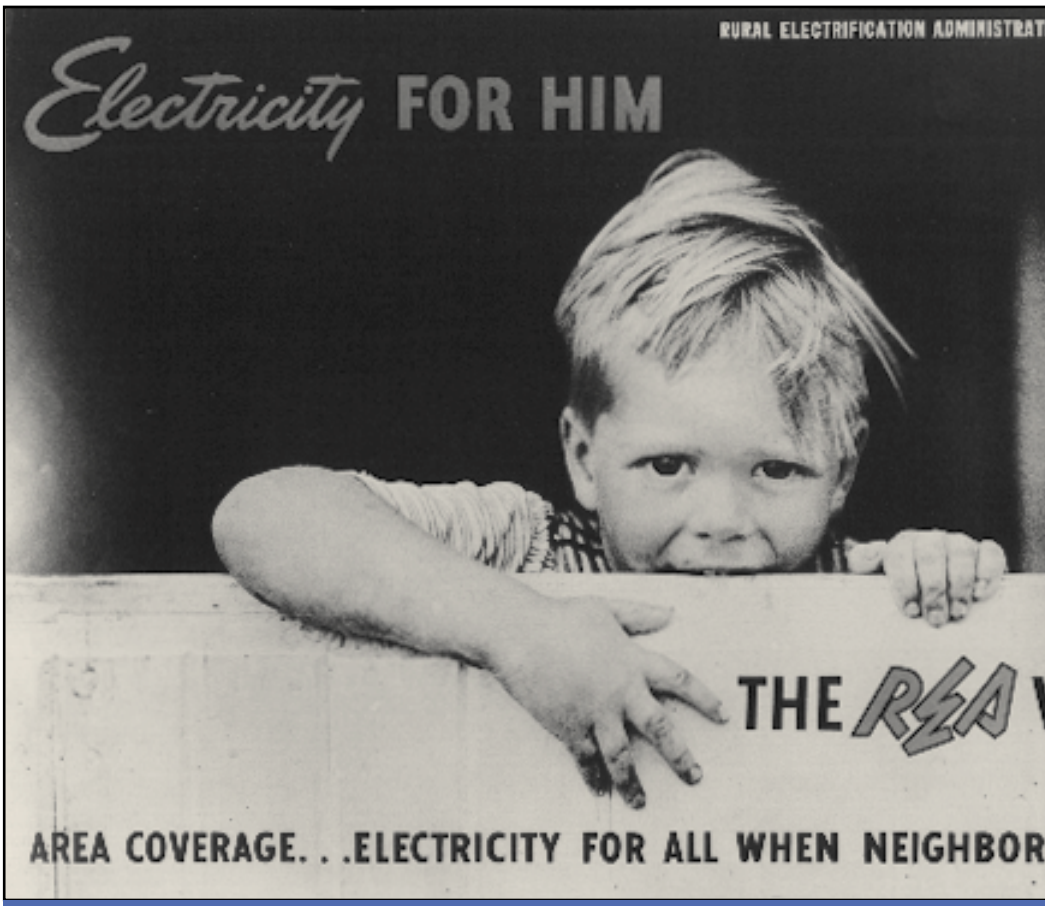
"Students of group action in agriculture will welcome this addition to their library. It provides insights into a period in American agriculture marked by swift structural change in the makeup of farm operations and the marketing institutions serving them," says Randall Torgerson, deputy administrator of USDA's Rural Business-Cooperative Service.

Copies are available through Lone Oak Press, 1412 Bush Street, Red Wing, MN 55066. A limited number of copies are also available from the USDA Rural Business-Cooperative Service at $25 hardcover and $17 softcover. Checks, payable to "U.S. Department of Agriculture," and accompanied by your name and address, should be sent to: USDA Rural Development, Attn.: Dan Campbell, Stop 0705, 1400 Independence Ave. SW., Washington, D.C., 20250-0705. ■

When the lights came on

USDA program brought electricity and a better way of life to rural America

Dan Campbell,
Managing Editor



USDA used posters such as this to spread the word about the benefits of electricity for farmers and other rural people. USDA photo

Sixty-five years ago, America was is in the grips of the worst economic depression of the 20th century. In rural areas, the situation was particularly bleak — especially for the 6 million Americans who earned their living as farmers. At a time when 90 percent of the urban population had electricity in their homes, only one in 10 rural Americans had electric service. The power companies felt the low population densities of the nation's rural heartland simply would not yield the type of profits they needed to justify extending service to 95 percent of the nation's land mass.

President Franklin D. Roosevelt realized that living standards in rural areas would continue to lag behind urban areas without electric service, and that it would take bold, decisive action to help rural Americans get it. So on May 11, 1935, he signed an executive order creating the Rural Electrification Administration (REA) within the U.S. Department of Agriculture. This federal agency helped rural Americans all across the nation form user-owned cooperatives and provided them with loans needed to build a rural electric infrastructure. These co-ops, in partnership with USDA/REA, brought electric service to even the most remote corners of the nation.

Electricity was the fuel for the economic engine that revolutionized rural life. In pre-electricity days, farm chores were often done by the dim light of kerosene or coal-oil lamps. Those flickering lights all too often illuminated faces of rural people crushed in their prime by the rigors of rural life, Agriculture Secretary Dan Glickman said during an event in Washington, D.C., marking the 65th anniversary of the creation of the REA.

Glickman recalled the daily struggles of rural people in those pre-electricity days by quoting Senator George Norris, one of the co-sponsors of the Rural Electrification Act: "I had seen firsthand the grim drudgery and grind...I had seen the tallow candle in my own home, followed by the coal-oil lamp. I knew what it was like to take care of farm chores by the flickering, undependable light of the lantern in the mud and cold rains of the fall, and the snow and icy winds of winter. I recall the...scenes of harvest and the unending, punishing tasks performed by hundreds of thousands of women, growing old prematurely; dying before their time...."

President Roosevelt found these conditions unacceptable, Glickman said. "If private utilities wouldn't find a way to wire rural America, he would see to it that the government loaned the money necessary to make it happen." Within just a few years of that order, 300,000 rural Americans had electrical power, an increase of 25 percent. The rate of "wired" farms continued to climb with each passing year.

Electricity eased many of the burdens for rural life. Work could be done much more efficiently and safely with electric light. Electricity meant that refrigeration systems — which helped

keep food supplies safe and created new opportunities for the production and shipment of perishable commodities — became far more widespread. Electricity helped mechanize many tasks that had previously been done by hand.

Electricity was not simply an added convenience for rural Americans. It helped make them the world's most productive producers of food and fiber and dramatically improved their living standards.

Breaking the bonds of poverty

"The day the lights finally came on at our farm, I remember my mother cried," former Agriculture Secretary Bob Bergland recalled during the anniversary celebration. They were tears of joy, he said, because with the arrival of electricity on his parents' subsistence farm near the border of Minnesota and Canada, "she finally saw a chance for our family to break the bonds of poverty.

"We lived in poverty, as did most of the other 6 million farms then operating in the United States," he said. "You struggled to stay alive."

Bergland recalled the first three electric appliances his family bought. The first purchase was electric lights for the house, followed by a toaster and then a "98-cent hair curler my mother bought at J.C. Penney and kept all her life."

Art Campbell, Deputy Under Secretary for Policy and Planning at USDA Rural Development, said he too has vivid memories of the day his parents' farm was wired for electricity. "I remember singing with robust glee in celebration as our little strip of houses along a dirt road was connected to electricity. We sang out with joy and no small amount of amazement: Oh the lights, the lights, Lottie Mae got light and we got lights! Oh the lights, the lights."

Campbell said, "REA is government at its best: doing things critical for the common welfare that are beyond the ability of individuals to do for themselves."

Glenn English, CEO of National Rural Electrification Cooperative Association (NRECA), described the REA as "a partnership between government and ordinary people who have used cooperatives as a business device to own the utilities that mean so much to them."

REA, English continued, enabled rural co-ops to build "the finest electrical infrastructure in the nation, bar-none...REA is a great program that performed great deeds," he said, noting that it built half of the nation's electric infrastructure. He also praised REA/Rural Utilities Service (RUS) as a highly efficient program.

Louisan Mamer receives a Lifetime Achievement Award from USDA Rural Utilities Service Administrator Chris McLean. Inset photo: Mamer, circa 1935, making a presentation about the use of electricity in the home and on the farm during one of the "electric circus" shows. USDA photos

Electric circus

To help educate rural people in the 1930s about how they could use electricity in their homes and on their farms, REA sponsored a traveling road show, which became known as the "electric circus." Louisan Mamer was one of REA's first employees, hired in 1935 to help stage those road shows. She was presented a Lifetime Achievement Award during the anniversary ceremony and shared some memories of those early days.

Mamer recalled being intrigued by an REA advertisement seeking people with "a pioneering spirit." Born in 1910 and raised on a farm in southern Illinois, where her father cleared 1,000 acres of Illinois River bottom land, Mamer said she knew well the hard labor of rural life. So when the chance came to leave home to attend the University of Illinois at Urbana, she took it.

The REA road show used two big circus tents, one for a general meeting and the other to demonstrate electrical appliances and farm equipment, Mamer recalled. One of her main duties was to speak to farm wives to help them "convince their husbands to pay to join a cooperative."

Small radios and electric irons were among the first appliances sold. In the North, washing machines were in big demand, while refrigeration was more of a priority in the South.

Mamer also trained other instructors so that they could conduct workshops, and she developed training materials, remaining with REA until her retirement in 1981.

"Education, inspiration, involvement and recognition" are the keys to success in life and business, Mamer

said. “Let people know what they do is appreciated.”.

REA legacy all around

As America celebrates REA’s 65th anniversary, the wisdom of Roosevelt’s action in 1935 is obvious: 95 percent of all rural Americans now have electric service and nearly half of all rural electric lines in the nation were built under this program. Through REA, $56 billion has been invested in rural electric service for rural Americans. The program — now administered under the Rural Utilities Service of USDA Rural Development — continues to invest more than $1 billion in rural electric infrastructure development each year.

Some say USDA’s rural electric program has served its purpose and is no longer needed. But electric systems are aging and must be upgraded to meet the increasing power demands of rural customers. The program will be “just as important to rural America in the 21st century as it was in the 20th century,” Bergland said.

English predicted that reliability will become a key issue for electric service in the years ahead. He said the only power systems in the nation built to meet federal standards are those financed by the Rural Utilities Service. RUS could help bring the entire electric infrastructure of the nation up to these high standards, he said.

RUS Administrator Chris McLean said USDA’s rural utility programs are

President Roosevelt’s creation of the USDA Rural Electrification Administration in 1935 brought electric light and power to rural people, and eased many burdens of rural life. USDA photo

Iowa RECs reach 15-year milestone for rural development

Pamela J. Karg
Field Editor

With 85 to 90 percent of its sales to farmers and other rural residents, Central Iowa Power Cooperative leaders knew they needed to do something to promote electrical use in the countryside. Otherwise, the investments by local farmers and rural residents through their electric cooperatives for generating stations and transmission lines were inevitably going to be borne by fewer and fewer people.

“We had done a few things to try to stimulate electrical sales, but it became apparent it was a bigger job than we had the resources for,” said Mel Nicholas, who was then working with Central Iowa Power Cooperative (CIPCO), a Cedar Rapids-based generation and transmission cooperative. CIPCO is the wholesale power supplier for 13 rural electric distribution cooperatives and one municipal cooperative. Together, CIPCO and the CIPCO Systems supply the electric service needs of 250,000 Iowans who live in a service territory that stretches 300 miles diagonally across northeastern Iowa to its southwestern corner. CIPCO has participated in the loan program of USDA’s Rural Utilities Service since 1946.

In 1980, CIPCO sold less electricity than it had in the previous year. That’s when Nicholas hatched an idea to have all of Iowa’s power-generation cooperatives pool their resources to fund what would eventually become the Iowa Area Development Group (IADG). By 1985, Iowa’s farm economy had been badly battered and rural electric sales were flat, at best. IADG’s formation that year could not have come at a better time.

“Our goal was jobs and wealth creation in rural areas,” says Dennis Murdock, CIPCO chief executive officer. “There was little focus at the time on job creation in rural areas served by electric cooperatives, which were also the parts of Iowa where the farm crisis had taken a heavy toll on farm men and women who were searching for off-farm income opportunities.”

During the past 15 years, IADG and Iowa’s rural electric cooperatives (REC) have been instrumental in creating business and community development opportunities across Iowa. IADG is the marketing and economic development agency for nearly 70 of Iowa’s rural electric cooperatives and select municipal electric systems across the state. IADG has assisted with over 850 successful business expansions and new locations. This growth represents capital investment of more than $2.5 billion and more than 26,000 new jobs.

USDA has credited IADG with initiating 57 grants and loans totaling more than $16 million for projects across the state that led to 2,900 new jobs. All IADG services are offered at no charge to new and expanding businesses, compliments of Iowa’s rural electric cooperatives.

IADG’s sponsors are the generation and transmission cooperatives serving Iowa, which includes CIPCO, Cedar Rapids; Corn Belt Power Cooperative, Humboldt; Northwest Iowa Power Cooperative, LeMars; and Northeast Missouri Electric Power Cooperative, Palmyra. The Iowa Farm Bureau Federation is also an IADG sponsor. The two have been working together since 1997 to advance value-added agricultural opportunities in Iowa.

How did the electric cooperatives and their new economic

vital to ensure that rural people are not left on the wrong side of a digital or social/economic divide. "Dramatic regulatory and market changes are occurring in the telecommunications, electric and water utility sectors," McLean said. "Without the help of RUS, rural America will have a more difficult time keeping pace with the revolutionary changes being experienced in these industries. It is imperative that the federal government be actively involved in providing a funding network of support services to ensure full participation in the 21st century economy."

Glickman concurred, saying "The infrastructure required to keep rural America viable and competitive grows more sophisticated every day. Sixty-five years ago, it was basic electricity. In today's high-tech, information economy, it's Internet access, modems and satellites.

"We are beginning to see a gap similar to the one we saw earlier this century, with most of the tools of the Information Age concentrated in the hands of urban and suburban Americans," Glickman said. Rural communities, meanwhile, are in danger of being left behind," he noted. "RUS is responding with more resources for programs such as distance learning and telemedicine to bring improved educational opportunities and health care services to rural communities.

"All of us together still have a big hill to climb," Glickman continued. "Let's make this anniversary more than a celebration. Let's use it as inspiration to work that much harder to ensure that rural Americans enjoy affordable access to modern electronic tools they need to prosper in the 21st century."

Editor's note: Below and following are four profiles of rural electric cooperatives that RUS works closely with and which are making a major impact on the economy and quality of life in rural America.

development entity know what industries to attract or to expand? Where did they start in the face of a farm and a rural economy spinning quickly out of control?

The answers came through research conducted by the internationally known Battelle Institute. "IADG hired the firm to comprehensively study Iowa's development advantages and assets, and come up with a list of the kinds of industries the state might have the best chance of attracting," said Bruce Hansen, vice president of marketing on the six-person IADG staff, located in West Des Moines, Iowa.

Hansen said the list identified viable industries for the state, including biotechnology, electronics, metal fabrication, plastics, furniture and other wood products, printing and publishing, value-added agriculture and food processing, warehousing and distribution, and telecommunications.

"These are our priorities and we keep a clear and definite mission surrounding these priorities," Hansen said. For example, IADG worked hard during the waning months of the 1980s and during the 1990s to help re-build Iowa's egg industry. Iowa was the No.1 egg-producing state in the 1950s, but it had fallen to 24th in the nation by the late 1980s.

Through targeted marketing and national promotions, Iowa has climbed back to the top. In 1999, Iowa produced 6.7 billion eggs, second only to Ohio, which produced nearly 8.2 billion. The state is now number two in layers on feed and in gross egg production.

IADG worked with Southwest Iowa Egg Cooperative in Massena, which went into full production in December 1999. It expects to market some 156 million eggs worth up to $7 million. The co-op is owned by 275 Iowans and Iowa entities, primarily area farmers who wanted better prices for their corn.

IADG and the local REC, Farmers Electric Cooperative in Greenfield, helped the egg cooperative get started. In addition, IADG and Farmers Electric helped Southwest Iowa Egg secure a 10-year, no-interest $400,000 loan from USDA Rural Development under its Rural Economic Development Loan program. The program provides zero-interest loans to Rural Utilities Service-financed electric and telephone utilities to promote rural economic development and job creation. The impact of the egg facility is being felt throughout the community with added employment and a new corn market for local farmers.

The list of success stories goes on for IADG and Iowa's RECs. The Rural Housing Institute (RHI) recently opened a new manufacturing plant to become a resource for communities to develop, finance, and build affordable housing in rural areas. RHI received an $80,000, zero-interest loan from USDA Rural Development, which was sponsored by Eastern Iowa Light & Power in Wilton.

Meanwhile, T.I.P. Rural Electric Cooperative in Brooklyn, Iowa, applied for and received $450,000 zero-interest loans on behalf of the Rosewood Farms food-processing project. This business will upgrade, renovate and re-open the former Louis Rich plant in Sigourney, Iowa.

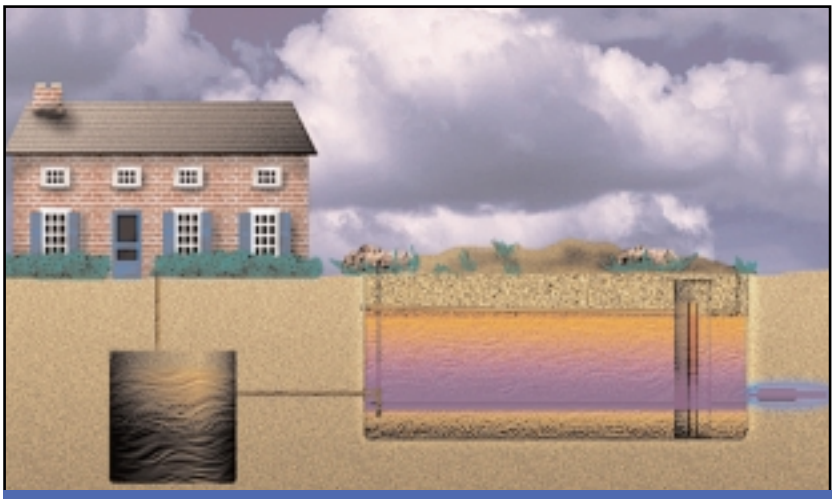
"These are just a few recent examples of many projects that IADG and the Iowa RECs have helped develop across Iowa during the past 15-years," said Hansen. "The success of IADG is a fine example of the determination of Iowa's RECs. Similar to the 1930s — when rural Iowa leaders stood up to the challenge of bringing electric power to the countryside — the RECs continue to be innovators with the foresight to help change the economy and landscape in rural Iowa."

For more information on the Rural Economic Development Loan program, visit our website at: www.rurdev.usda.gov/rbs/busp/redl, or contact any USDA Rural Development field office or USDA Service Center. Or call (202) 720-4323, then enter "1" and follow the voice prompts to be connected to your USDA Rural Development state office. ■

Pennsylvania co-ops take development underground

The Pennsylvania Rural Electric Association and its member cooperatives have been key players in establishing distance learning and telemedicine network links that allow rural schools, libraries and hospitals to access information and specialized training previously only available in urban areas. But now the association is involved in another initiative that gets to the heart of life in rural areas: wastewater management.

Three years ago, an innovative on-lot sewerage treatment system installed at a Catherine Township, Pa., residence had a decidedly statewide significance. The system at the home of Valley Electric Cooperative member Gary Discavage was the start of the PREA's Rural Wastewater Initiative, an ambitious effort to find a solution to wastewater disposal problems in rural areas and work out an innovative licensing agreement with the state.



The on-lot sewerage treatment system tested in rural Pennsylvania by the state's electric cooperative association uses the newest technology to produce an effluent that exceeds EPA standards.

Large areas of rural Pennsylvania are neither served by central sewage systems nor suitable for conventional septic or sand mound systems.

"A virtual moratorium on development has been imposed in many areas as a result," said Russ Biggica, PREA director of public affairs. "We're talking about some of the most rural of rural areas, and people can't sell their homes. They can't will them to their children. They can't give them away. It's all because of the problems associated with wastewater disposal and groundwater contamination."

The solution is the innovative septic systems PREA, local electric cooperatives and state agencies started testing in 1998. PREA can be credited with helping rural people find a solution that Biggica said does not promote urban sprawl yet does promote improved health and safety.

"We did our demonstration projects in which we showed that the system has cleaner water flowing out of it than is coming out of many of our rural wells," he said.

In the new system, solids settle and are retained in a septic tank before the liquid effluent passes through a filter and, by gravity, into a box filled with sand, where it is filtered still further. The sand box also contains a recirculating pump that distributes, or doses, the effluent over the filter media several times before it is discharged. The filter works through the activity of micro-organisms that colonize the spaces between the sand particles and use the waste material in the effluent for food. Finally, an ultraviolet filter kills any remaining bacteria that might have survived. The effluent meets or exceeds federal Clean Water Act standards.

PREA is now working to get the system accepted by the state Department of Environmental Protection (DEP) for routine use without need for special permitting.

"We need to consider the economic side of the problem. A virtual moratorium on housing and development exists because there are no central sewerage systems, which creates a hardship for many rural people," Biggica said.

Pennsylvania has an abundance of water, but it also has abandoned acid mining facilities, past farming practices that included heavy use of chemicals, and old, leaking sewerage systems. In many areas of rural Pennsylvania, owning land and investing in property had become a losing proposition.

"We have shallow soil here because of the glaciers, and we can no longer use the soil or traditional septic technology," Biggica said.

As a service organization, PREA works with local electric co-ops to provide professional and technical assistance, such as developing comprehensive local development strategies and seeking out-of-state and federal economic development grants. Pennsylvania co-ops, for example, spurred job creation by guaranteeing 24 zero-interest loans secured through USDA's Rural Business-Cooperative Service. The projects funded by these loans benefit entire rural communities, not just areas served by rural electric co-ops.

"Helping rural areas find a remedy for wastewater disposal problems is a priority for PREA and its member cooperatives," he stressed.

With more than 60 years of experience in providing affordable and reliable electric service, co-ops are a ready-made delivery system for improving the economic health of their rural communities, Biggica added. As a result, co-ops do more than just supply power. They aggressively work to

Continued on page 27

Maine co-op building support for economic development

In eastern Maine, rural towns average about 361 people. Remove the two largest communities in the territory served by Eastern Maine Electric Cooperative (EMEC) and that average would drop to 281 hardy Nor'easters.

"With populations so low, many towns cannot afford a town office, much less someone to focus their energy on economic development, so along comes the concept of regional development," explains Charles McAlpin, director of public relations for EMEC, headquartered in Calais, Maine, one of the two largest communities in this most rural of rural Maine regions.

Economic development professionals agree that development is more successful if undertaken on a regional basis, when individual towns work together as part of a larger community. "The regional effort has three primary advantages," McAlpin adds. "Those include more people to share the workload, more money with which to operate, and greater political clout to influence state and federal policy."

Three years ago, EMEC entered the planning effort in a big way, helping small towns and businesses band together to talk about regional economic development. By helping encourage business growth, promoting the region to perspective businesses and encouraging internal changes to make the region more marketable, EMEC assists the Maine Department of Economic and Community Development and regional councils. EMEC is committed to bringing a renewed quality of life to its members who live in parts of Aroostook, Penobscot and Washington counties, which border Canada.

To that end, EMEC has worked with several councils, including Eastern Maine Development Corporation, Sunrise County Economic Council (SCEC) and Saint Croix Economic Alliance (SEA). EMEC took a more direct role, as well. The co-op applied for a $700,000 zero-interest, pass-through loan on behalf of a local company, Washington County Psychotherapy Associates (WCPA). With this money as part of a multi-tiered financing package, WCPA will establish a youth treatment facility that will create 65 new, skilled jobs in the region.

This financing was possible through the Rural Economic Development Loan program of USDA Rural Development. Under this program, electric cooperatives participating in USDA/RUS programs can apply for pass-through loans for businesses creating jobs in depressed rural areas. The cooperative's involvement in the project did not end with the loan, however. EMEC also sold a building to the City of Calais, purchased by the city for a business incubator under the Community Development Block Grant program. The city is leasing the building to WCPA for the project, thereby cutting the project's starting cost.

Although the program was available for some time, it had gone unused because — to be useful — it needed the type of major regional development effort now underway, says Jim Dean, chief executive officer of EMEC. "A lot of people in the Calais area and elsewhere across the state worked in a very coordinated way to bring this about." Those backers included Maine Governor Angus King, Congressman John Baldacci and Senators Olympia Snowe and Susan Collins and numerous governmental organizations.

Among the project's many benefits are new, quality jobs and the ability to treat children at home in Maine. Children who are clients of WCPA are currently sent out of state for treatment, at great cost. This project saves the state money, brings funds to a depressed region from out of state, and, most importantly, will allow local parents to be more involved in the recovery of their children.

In Washington County, where unemployment was in the double digits in the late 1990s, the state and businesses such as EMEC have helped refocus efforts on a variety of economic development resources. The efforts established a strong partnership between the State Planning Office and the Sunrise County Economic Council to build long-term economic development capacity for the county. The partnership prompted the SCEC to begin a $1 million endowment drive.

The state also spent more than $20 million in Washington County for the new Port of Eastport, reconstruction of Route 9 and for infrastructure improvements in numerous communities. Meanwhile, Cherryfield Foods expanded cranberry beds. Atlantic Salmon of Maine built a new processing plant in Machiasport, which added 30 jobs. And Destiny 2000 plans to enhance opportunities for tourism while conserving cultural and natural resources.

The SCEC commissioned "Cultivating Jobs from the Sea in Washington County" to develop strategies that encourage the growth of targeted sectors of Washington County's marine economy. These sectors include: Fish Processing, Aquaculture Support Services, Wild & Cultured Shellfish, Marine Engineering and Fabrication, Marine Biotechnology, and Marine Research Conferences and Institutes. Harvesters, aquaculturists, and business people in Washington County are already putting these strategies to work.

"Regional economic development efforts affect the EMEC service territory," McAlpin said. "It must be stressed that these are private efforts that cooperate with state efforts, but are independent of them. While co-op staff have varying levels of involvement with these different organizations, we encourage anyone with an interest in the future of their region to support these groups when the opportunity arises." ■

— Pamela J. Karg, Field Editor

Mohave Electric Co-op's quick response attracts major source of jobs to service area

Mohave Electric Cooperative and its power supplier joined forces to draft an innovative service agreement in less than four months that helped attract a major new industry and is the source of 650 construction and/or permanent jobs added to its Arizona service area. The area's investor-owned utility had tried — unsuccessfully — for three years to accomplish the same feat.

"This was an innovative power supply agreement that became this utility's and the state's first venture into retail power wheeling — long before deregulation took effect in Arizona," says Mark Harris, communications manager for Mohave Electric Cooperative (MEC), headquartered in Bullhead City, Ariz.

Mohave Electric CEO Robert E. Broz (left) worked with the North Star company to provide power to its mill without the cooperative incurring debt for capital investment. Photo by Mark E. Harris, courtesy MEC

Mohave Electric and its generation and transmission source, Arizona Electric Power Cooperative (AEPCO) — both long-time participants in USDA's Rural Utilities Service loan program — put together a package that included 80 megawatts of hourly demand so that North Star Steel Co., a division of Cargill, Inc., would locate its $140 million manufacturing plant in Kingman, Ariz.

The North Star plant was the first to be built in Arizona that is deriving benefits from the Environmental Technology Manufacturing Act (ETMA). The ETMA gives long-term tax benefits to companies that primarily produce manufactured goods through recycling, and companies that are committed to renewable-energy product manufacturing. The North Star mill has a high-tech, automated processing system that uses electric arc furnaces to make about 500,000 tons of construction-grade steel from vehicle bodies, appliances and other recycled material that are shipped by road or rail.

When ground was broken in 1995, the plant brought some 500 construction jobs. Now about 150 permanent jobs have been added to Kingman and Mohave County. The estimated economic impact of the plant on the county is $23.75 million.

The power supply contract required the Western Area Power Administration to build a switching yard, funded by North Star, under existing transmission facilities at the plant site. Through the contracted arrangement, North Star takes power directly off the grid at the best market price available, Harris said.

Power delivery is handled by the AEPCO dispatch center in Benson, Ariz. Power travels over WAPA lines, but service is provided by Mohave Electric. At no time throughout the negotiations and contract signing were Mohave Electric assets put at risk, and the cooperative assumed no new debt.

"It also set a precedent in that Citizens Utilities ceded a portion of its service territory to Mohave Electric. So the North Star plant became an island of our service territory, surrounded by an IOU (investor owned utility), " Harris said.

"That MEC and AEPCO were able to work together to meet the needs of a new customer is a good example of what cooperatives are all about," said Fred Grigg, a MEC director. He was involved in the negotiations over the contract, and also witnessed MEC's efforts to help Citizens Utilities and North Star negotiate an agreement during the previous three years.

"We were excited by the mill's impact on local economic development," Grigg added.

MEC serves all of Bullhead City as well as parts of Mohave County, including the areas north and south of Kingman. Now MEC provides an island of electrical service to the North Star mill near Kingman's borders, which is otherwise served by IOU Citizens Utilities.

"This type of contract provides North Star with energy at costs that will help ensure the mill's success," said Robert E. Broz, chief executive officer of MEC. "Our member-owners and AEPCO member-owners benefit through increased sales without incurring debt for capital investment. We worked hard with North Star to make this happen." ■

– Pamela J. Karg, Field Editor

Co-op communicators honored

Top co-op communicators were honored by their peers in Montana in June for outstanding work and dedication to cooperatives. Awards were presented during the annual institute of the Cooperative Communicators Association (CCA).

James Leuenberger, Shawano, Wis., received the H. E. Klinefelter Award, given annually to a CCA member who has raised the standards of cooperative communications and, in doing so, has contributed significantly to the cooperative way of doing business. Leuenberger is vice president of information and public relations for Cooperative Resources International (CRI).

Raised on a Fort Atkinson, Iowa, dairy farm, Leuenberger earned a bachelor's degree in dairy science and a master's degree in agricultural journalism from Iowa State University. He served as a 4-H and youth agent with the Winneshiek County Extension Service in Iowa before joining the National Holstein Association in Brattleboro, Vt. In 1975, he was named vice president of public relations of what ultimately became known as 21st Century Genetics.

As the industry consolidated, 21st Century became part of the new CRI organization in 1993 and Leuenberger assumed his present position at that time. He now manages a staff of 17 in four different locations. He also serves as managing editor of the cooperative's cattle breeding publication, *Horizons*.

Sheryl Meshke and James Leuenberger
Photo courtesy CCA

Sheryl Doering Meshke, Lake Crystal, Minn., received CCA's Michael Graznak Award, given annually to a young communicator and CCA member who has demonstrated excellence in cooperative communications. Meshke is communications director for Associated Milk Producers Inc., at New Ulm, Minn.

Meshke manages the communications and government relations department. She is in charge of the co-op's monthly magazine and its member and employee newsletters and serves as treasurer of AMPI's political action committee. In addition, she is the cooperative's spokesperson and media relations coordinator. Before joining AMPI in 1991, she was editor and advertising director with Madelia Media Inc. and worked as a journalism intern at *The Land* magazine and *Country Times* newspaper at Amboy, Minn.

She earned a bachelor's degree in agricultural journalism at South Dakota State University. She currently is pursuing a graduate degree in business communication at the University of St. Thomas in Minneapolis. She serves on the CCA board.

CCA named Catherine Merlo, Bakersfield, Calif., as writer of the year. Merlo, who heads a communications firm that works closely with a number of cooperatives and related organizations, formerly worked with Calcot, a Bakersfield-based cotton and almond marketing cooperative. Merlo was cited by judges for her ability to address a variety of writing assignments.

Bob McEowen, field editor with the Association of Missouri Electric Cooperatives, Jefferson City, earned photographer-of-the-year honors. McEowen's photography focuses on subjects that convey the message that there are opportunities in rural areas and that rural areas are a good place to live and work.

Best-of-class award in the special projects/programs competition went to David Eaheart of Farmland Industries, Kansas City, Mo., for that company's campaign entitled "Support Trade for Farmers, for Farmland, for You." Judges said the winning entry stood out due to a comprehensive approach to cooperative communications that included well-written stories, good use of contemporary graphics and a design that supported the theme.

Honored for Publication of the Year was Janet Hunter, editorial director of the Farm Credit Bank of Texas, Austin, for that company's *Landscapes* magazine. The publication showed "exceptional creativity, originality, readability and quality over a broad scope of content," judges said.

USDA Rural Development's *Rural Cooperatives* won a third place award for best magazine, and field editor Pamela J. Karg won a second place news writing award for an article about President Clinton's visit to an Arkansas tomato cooperative. ■

USDA, Commerce join forces to boost early warning system

Each year, thousands of people die, are injured or lose property because they didn't receive adequate warning of approaching weather hazards or natural disasters. When people know disasters are coming, they act. For many, the best chance they have to avoid an approaching weather emergency is the 24-hour disaster warning network of the National Oceanic & Atmospheric Administration (NOAA).

Agriculture Secretary Dan Glickman has announced that the U.S. Department of Agriculture and the Department of Commerce are creating a partnership to extend NOAA's emergency radio service to more rural areas of the nation, large portions of which still do not have coverage. Through the agreement, the Rural Utilities Service (RUS) of USDA Rural Development will encourage the installation of emergency radio transmitters by identifying rural utility towers not currently receiving the NOAA transmissions. NOAA will work with the utility co-ops to install the transmitters to provide the warning signal to that area.

"The cost of installing radio transmitters is small when you consider the life-saving service it will provide to millions of rural people nationwide," Glickman said. "West of the Mississippi River, more than two-thirds of the land area is still not covered by this vital radio service, and large areas of the eastern third of the country also lack coverage."

Inadequate warnings of approaching hazards, such as floods, tornadoes and hurricanes, are particularly acute in the nation's rural areas. Once the transmitters are installed, households will be able to receive warnings through NOAA radios, the Internet, pagers and telephones.

"This agreement is a real life saver for rural Americans," said Jack Kelly, assistant administrator for the National Weather Service. "The Rural Utilities Service's long-standing relationship with electric and telephone cooperatives will make it easier to identity weather radio transmission sites, as well as partnering with them to install transmitters."

Utilities willing to mount a transmitter will be asked to donate power to run it, including an emergency back-up power source. The savings from using existing towers and power supplies can more than double the deployment of weather radio transmitters.

Jill Long Thompson, USDA under secretary for rural development, said this is an ideal public service effort for rural utility cooperatives to pursue. "What better way for cooperatives to show their commitment to public service than making this life-saving technology available in their service areas?"

For more information on this program, contact RUS' national office at (202) 720-1255 or visit the NOAA website at www.nws.noa.gov/nwr. ■

Missouri rural electric officials discuss how a new NOAA weather alert system will be installed along powerlines.
Photo by Jim McCarty, courtesy Missouri Electric Cooperative Association

Dennis M. Mullen

President & CEO, Agrilink Foods, Inc., Rochester, N.Y.
Cooperative Communicators Association's CEO Communicator of the Year

Dennis Mullen: "Our mission is to explain why we do what we do." Photo courtesy Co-op Communicators Association

Co-op description:

Agrilink Foods is a $1.5 billion national food company that processes and markets a variety of product lines of branded, private label and foodservice products in 32 facilities located throughout the United States and in Mexico. Included in Agrilink Foods' portfolio are the Birds Eye, Veg-All, McKenzie, Comstock, and Wilderness brands. Agrilink Foods is a wholly owned subsidiary of Pro-Fac Cooperative, an agricultural marketing cooperative which consists of more than 600 member-growers. It processes fruits, vegetables and popcorn through its subsidiaries, Agrilink Foods and AgriFrozen. Pro-Fac Cooperative is also now doing business under its Agrilink name and only uses the Pro-Fac name in legal documents.

Professional background:

Mullen graduated from St. Leo College, St. Leo, Fla., with a bachelor of arts degree in education. Before joining the Pro-Fac Cooperative family, he was with Globe Products Co., Clifton, N.J.; The Nestle Co., White Plains, N.Y.; Farmland Industries, Franklin Park, Ill.; and Butoni Foods, South Hackensack, N.J.

Mullen joined Agrilink Foods in its Nalley Fine Foods division in Tacoma, Wash., in 1990. After three years there, he moved to Agrilink's Curtice Burns Foods. In 1996, Mullen was named chief operating officer for Agrilink, Rochester, N.Y. Six months later, he was promoted to president and chief executive officer.

Community and industry roles:

Mullen serves on the boards of directors for the following organizations: American Heart Association, Genesee Valley Region; Grocery Manufacturers of America; National Food Processors Association; St. Leo College; The Popcorn Institute; United Way of Greater Rochester; Rochester Institute of Technology, School of Food, Hotel and Travel Management national advisory board; and Chase Manhattan Bank, northeast regional advisory board.

Greatest challenge facing Agrilink:

Our greatest challenge is one of continuing to compete and grow in the extremely competitive food business, where mergers continue to create fewer, but much larger companies with greater economies of scale. We must be a low-cost operator in everything we do, from purchasing to manufacturing to administrative functions. This is the challenge I've presented to our employees and will continue to pursue as we move forward.

How do you view your communication role as the CEO?

"I'm a true believer in the impact communications can have on all aspects of business and I promote this passionately in any conversation, meetings, etc. Our communications mission is to explain 'why we do what we do,' and we have a variety of vehicles to help achieve this goal. I am committed to sharing this vision, in person, wherever possible."

Mullen is about to begin another series of employee meetings across the country. These 'road shows' will be similar to what he did a couple years ago when he met with all employees, in small meetings during day and evening shifts over several weeks. The first series of meetings was prior to Agrilink's acquisition of the former Dean Foods Vegetable Co., which has now doubled the number of employees. This year's trip will mean meetings, in larger groups, to address the nearly 6,000 employees now part of Agrilink.

"When I meet with employees or members and they understand our mission...our core values...our strategic thrusts, then I know we are getting that message throughout the organization," Mullen explains. "We recently produced an orientation video for new employees and I was thrilled to hear some of the concepts about being a 'low-cost producer,' 'excellence in performance,' and 'working together as teams' being repeated by our employees in the video. That tells me our communications efforts are working." ■

Generating rural progress

Study finds that new-generation and traditional co-ops have major beneficial impacts on rural communities

Editor's note: *A group of Midwest university professors collaborated on a study that includes a close look at five cooperatives and the impact they have had on their respective communities. These included three new-generation cooperatives, a traditional cooperative that had changed its relationship with members, and a group of local governments using a cooperative business model to deliver services in rural areas.*

Coordinating the study were David Trechter, University of Wisconsin-River Falls, and Robert King, University of Minnesota. Contributors were: Robert Cropp and Anne Reynolds, University of Wisconsin Center for Cooperatives; Kimberly Zeuli, University of Kentucky; Roger Ginder, Iowa State University; Evert Van der Sluis, South Dakota State University; Michael Cook, Deanne Hackman and Kristi Livingston, University of Missouri-Columbia; Gary Goreham and Frayne Olson, North Dakota State University; Beth Honadle, University of Minnesota; and Linda Jacobson, University of Wisconsin-River Falls.

The following material has been excerpted or summarized from their study, USDA/RBS Research Report 177, by Patrick Duffey, a writer/editor with USDA Rural Development's public affairs office. The full text can be accessed on the USDA Rural Development website at: www.rurdev.usda.gov/rbs/pub/research.htm.

As the new millennium opens, the U.S. food system is still in the midst of profound structural changes that will have a significant impact on farmers, agribusinesses (including cooperatives), rural communities and consumers. These changes include a wave of new farmer-owned processing cooperatives formed by growers who see their best odds for success hinging on their ability to keep more of the value-added dollars generated from their crops and livestock. Consider the case of Great Plains wheat producers, who in 1997 received only 10 cents of each consumer dollar spent on cereal and bakery products. Nationwide, farmers reaped just 23 cents for every consumer dollar spent on food in 1997, compared with 37 cents per food dollar in 1980.

During the 1990s, more than 50 new cooperatives were established in the Upper Midwest, with most of them based in rural communities. This surge of interest in forming new-generation cooperatives (NGCs) is creating spin-off economic benefits to the communities where these new businesses locate.

This study focused on the Midwest because it is the home of the greatest concentration of cooperatives in the United States. Nine of the top 10 cooperatives, when ranked by 1997 revenues, are located in the Midwest. Among them are Farmland Industries, Cenex Harvest States, Growmark, Land O' Lakes and grocery wholesale cooperative Associated Wholesale Grocers of Kansas City. There are also many smaller co-ops in the region, ranging from credit unions and rural electric cooperatives to natural foods, housing, and agriculture co-ops.

Soybeans are inspected prior to processing at a plant built by South Dakota farmers who were tired of shipping out raw product and bringing back in finished product.
Photo courtesy South Dakota Soybean Processors

One of the objectives of the study, conducted during the fall of 1997 and the winter of 1998, was to summarize the experiences of cooperatives and their impact on local communities.

How co-ops boost rural communities

All cooperative businesses, the study notes, are based on three fundamental operating principles: one vote per member; the business is owned by those who use it; and earnings are returned to members in proportion to how much they use the cooperative. These principles exemplify the differences between cooperatives and investor-oriented firms (IOF). IOF voting is based on the number of shares owned, ownership is not limited to those using the business, and earnings are returned to stockholders in proportion to investment.

"As user-owned organizations, cooperatives provide a model for individual self-help and empowerment that strengthens bonds leading to greater community awareness and involvement," says Randall Torgerson, deputy administrator of USDA's Rural Business-Cooperative Service (RBS). "Cooperatives have been created in response to the

needs of agricultural producers and other rural residents faced with rapidly changing forces that affect their livelihoods and well-being. Cooperatives not only provide access to markets not otherwise reached, but also provide member-owners with an opportunity to improve incomes and services."

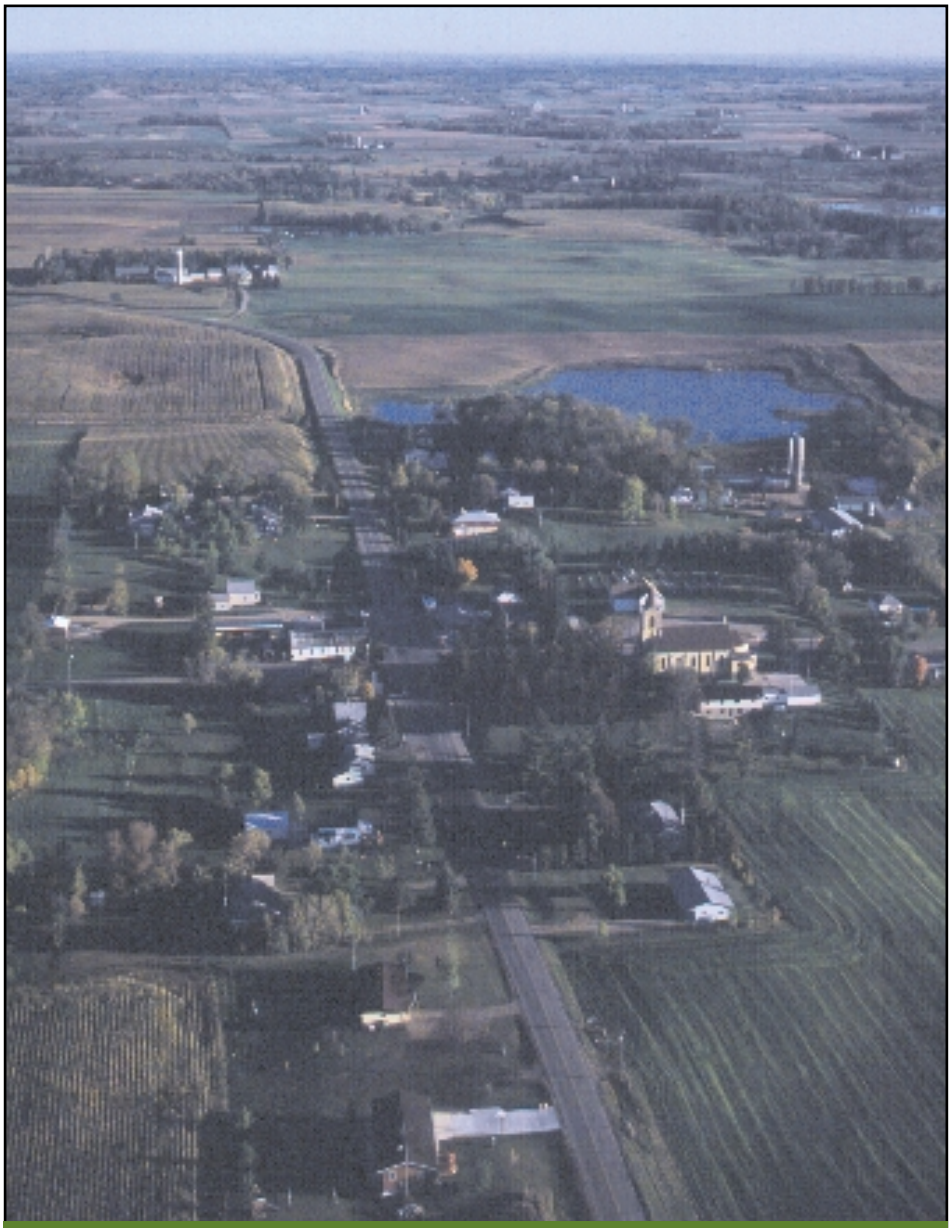
Traditional agricultural cooperatives are easy to join and difficult to leave. In contrast, new-generation cooperatives are more difficult to join, but often easier to leave. The substantial up-front investment farmers or ranchers need to make in new-generation cooperative stock is linked to delivery rights and responsibilities.

Cooperatives usually have a positive impact on rural communities in part because operating and service decisions are made locally. Thus, cooperatives have little incentive to close or move their operations in order to increase their return on investment. Net earnings are returned to members and cooperatives contribute to local economic development. They also help to foster an attitude of self-help and self-initiative in a community.

When agricultural commodities that had been shipped out of a region are instead processed locally, it generates more jobs and local income. Processing and other new cooperative facilities enhance the local tax base and strengthen the demand for retail sales and services, triggering the creation of other local businesses. This, in turn, may trigger the need for new housing and improvements in local schools and other community facilities.

Cooperatives may also increase the social cohesion of a community by providing local meeting places and a greater sense of community pride. A cooperative store may become the social and economic hub of a community. Cooperatives also make donations to local service clubs and create scholarships.

Following are highlights from the research report relating to each of the five cooperatives studied.



New-generation cooperatives get farmers closer to the consumer through value-added processing, and the organizations that these innovative farmers build help bring diverse economic vitality to rural communities.

Farmers' Cooperative Association, Keota

Farmers' Cooperative Association, Keota (FCAK), is a farm supply and grain marketing cooperative located about 40 miles southwest of Iowa City. It had gross sales of more than $22 million in 1997 and a membership of 668. It employs 47 people, making it one of the larger employers in Keota.

FCAK is working with Farmland Industries on an innovative program that could help reverse the decline in the state's hog industry. In 1997, Iowa ranked first among all states for hog production, with 22 percent of the nation's hogs. But production is shifting to the South and Southwest, and some producers felt their operations had to change.

Iowa farm numbers have fallen and the remaining operations are growing larger. The decline is a major concern because hog production adds value to the state's corn crop, creates a market for other feedstuffs and demand for farm services and equipment. It also creates jobs in the marketing, slaughter and processing sectors.

New production technologies have led to the construction of large-scale, low-cost hog production farms. These farms are designed to meet consumer

demand for leaner, more consistent pork products. In turn, meat packers need large numbers of uniform-quality hogs from a single source. Also, an increasing percentage of this country's food supply is distributed via highly integrated agribusiness firms. Larger scale hog operations have benefited from these trends.

The "traditional" hog producer with less than 500 sows is struggling to compete with these mega-farms. Capital costs and associated market risks prevent many young people from entering hog production.

Iowa producers are meeting consumer demand for leaner, more consistent pork products by following a Farmland swine program. Meeting consumer expectations can mean better prices to producers. Photo by Jim Tucker, courtesy Farmland

FCAK had been losing business to competitors offering various services to farmers, such as record keeping. The cooperative's board approached Farmland Industries for assistance and met with an Iowa State University Extension specialist to discuss possible responses to these structural changes in hog production.

Farmland offers a "contract-building system" for its farmer-owners, and manages another type of swine program for independent producers, known as an "alliance farm system." Traditionally, farmers have retained ownership of production facilities and their hogs, accepted all risks and reaped all returns for production. The alliance system offers a way to help smaller operations expand hog production, including construction guidelines for buildings and simplified financing, as well as a source of high-genetic-quality feeder pigs. Farmland offers marketing agreements that include market price-risk sharing programs, futures contracts and carcass-merit pricing. Other services include access to swine specialists to assist with management, and feed and services provided by the local farm supply cooperative.

Under the contract-building system, farmer-members invest in the hog-finishing buildings and provide labor for the hog-finishing process. Farmland retains ownership of the pigs, assumes price and production risks, provides the feed and covers health maintenance costs. In some contracts, a premium is paid for reaching defined performance standards, but most participating farmers receive a guaranteed payment per pig space.

Both programs require that the hog farmer purchase feed from FCAK if the farm is located within a 25-mile radius of the cooperative. This agreement holds for 10 years, after which a farmer is free to purchase feed from anyone. Thus the local cooperative benefits from higher feed sales and other services.

Each month for nearly a year, the board discussed the pros and cons of participating in Farmland's hog production systems. The FCAK board had to decide whether to invest members' capital to encourage hog production (which would require building a new feed mill), or to expand grain handling and storage facilities.

The board eventually opted for the Farmland hog programs, and held three meetings to present its proposal to the members. Member reaction ranged from those who thought the proposal was a great idea, to those who saw the plan as a threat to their own hog operations and a loss of their economic independence.

Based on member reaction, the board voted to adopt the Farmland hog programs (state law required a membership vote to formalize the plan), even though it lost members in the ensuing controversy. By 1997, eight members were participating in the Farmland program — a small number, but those eight farmers represent about half of the cooperative's feed business. Their increased level of business justified the cooperative's investment in a new feed mill, which is benefiting all members. FCAK was also able to hire a grain-marketing specialist who provides members with precision agricultural services. Those members with Farmland contracts have reduced their market risks. The Farmland program has also helped younger producers obtain the resources needed to enter the business.

The program got off to a somewhat rough start — some members felt Farmland should have provided more details early on about the contractual arrangements, and there were some initial disease problems. But since then, participating farmers appear to be happy with the program.

Some farmers initially had trouble securing credit to participate, but local financial institutions are now more familiar with the program and are more willing to make loans to farmers wishing to enroll in it. Between 1990 and 1997, gross sales for the cooperative increased 137 percent, from $9.4 million to $22.2 million, although not all that growth can be attributed to the swine program.

Ultimately, this swine program boosted economic activity in the city and county. Higher net corn prices resulted because corn no longer had to be trucked out of the area. The higher profit levels and experience in financing the programs increased the availability of credit from the local bank. Construction of hog facilities provided employment for local building contractors and increased the need for local veterinarians. More young people have been able to remain in the community. The cooperative added employees and other local businesses also gained. A new library has been built, the local park has been improved, and community pride has increased.

The co-op has also provided benefits to non-members. With a gas station and tire service, home heating and air conditioning services, etc., FCAK provides the community with much-needed competition for both agriculture and consumer goods and services.

Because contract-hog production is often controversial, a cooperative entering this business arena must provide ample information to its members outlining the benefits to them, the impact on the cooperative's profitability, availability of new services, and the potential economic impact on the local community in terms of business and employment. Such major projects take a minimum of two years.

The cooperative feels it is keeping hog production in the hands of farm families and can have many multiplier effects by offering more services to its members and the community. Enhanced profitability of the farmers spills over to enhance business activity in the local community and more local employment opportunities.

Northeast Missouri Grain Processors (NMGP)

Northeast Missouri Grain Processors (NMGP) cooperative opened Missouri's first ethanol plant on April 29, 2000, at Macon, Mo., about 60 miles north of Columbia. When fully operational, it will produce 15 million gallons of ethanol and 100 million pounds of dry distiller's grain (DDG), a high-quality livestock feed, annually from 6 million bushels of corn.

The cooperative's 311 farmer-owners invested $5.6 million in the facility, which cost $23.5 million to build. The project was launched in 1994. Like many other ethanol plant operations, this one is structured as a new-generation cooperative. While Missouri is not the epicenter of the new-generation co-op movement, this ethanol cooperative nonetheless illustrates the opportunities and challenges faced by those attempting to transplant this business innovation into new areas.

NMGP, organized in 1995, currently has a 13-member board and 30 employees. During the organizational phase, site applications were received from nine counties representing 15 communities. Information meetings were conducted in 25 counties. A limited liability company was eventually formed to own and operate the plant and sell the byproducts.

Initially, 274 members purchased 1,632 units of stock at $2,500 per unit, or slightly more than $4 million in producer equity. In a second equity drive, both existing and new members purchased an additional 428 units at $3,000 each.

NMGP holds an 84 percent share of the LLC that owns the ethanol plant. The cooperative faced an initial challenge in raising equity capital. Local farmers were unfamiliar with new-generation cooperatives and there was uncertainty about federal and state legislation affecting ethanol production. Missouri's variable weather also often puts heavy demands on a farmer's cash flow reserves, and state law restricts the sale of investment securities. Once Macon was selected as the plant site, cooperative backers had to contend with a drop-off in support for the venture among producers in other area communities who had hoped their town would win the new facility.

After an initial period of uncertainty about this new organizational form, the state of Missouri has been very helpful in the formation of new-generation cooperatives. The Missouri Department of Agriculture hired a cooperative marketing specialist to assist producers with cooperative development. The state legislature created grant programs to assist with activities such as feasibility studies and business plans for projects that add value to agricultural commodities. The state also provided partial loan guarantees for value-added projects.

Producers consider increased profitability derived from processing their corn as the primary direct benefit of the new cooperative, and they anticipate higher corn prices as well. New jobs and an expanded local tax base are rated as the primary community benefits. The cooperative is also credited with stimulating related business activity, such as trucking.

Northeast Missouri producers are putting their commodity product into a new ethanol plant. Photo courtesy NMGP

Five key lessons for those launching new cooperatives were learned from this case study: 1) remain flexible (NMGP changed its initial opinion about the type of technology to be employed at its ethanol plant and regarding the prerequisites of a good plant site); 2) don't underestimate the time required to develop a new-generation cooperative (it took time to educate farmers, lenders, state legislators and state agencies); 3) state statutes governing new-generation co-ops must be well understood and may need to be changed; 4) economic development programs at the state and local level are often ill suited to cooperatives; and 5) tap the knowledge and expertise of oth-

ers interested in rural development, such as rural electric cooperatives.

If this cooperative proves successful, the board, farmers and community leaders say they believe it will provide a powerful model for other value-added processing cooperatives in Missouri. As board Chairman John Eggleston said, "It will be much easier to be second than to be first."

South Dakota Soybean Processors

South Dakota Soybean Processors (SDSP) transforms members' soybeans into soy oil and soy meal. Prior to its existence, lack of a soybean processing plant in the state forced producers to ship soybeans to neighboring states. About 40 percent of the processed beans were transported back to South Dakota again in the form of soy meal for livestock feed.

This new-generation cooperative began operating in late 1996. It processes raw soybeans into crude soybean oil, high- and low-protein soybean meal, and soybean hulls. Soy meal is sold throughout the Midwest, the Pacific Northwest and Canada. Soy oil is marketed to Harvest States Cooperative in Mankato, Minn., where the oil is further refined for human consumption. The hulls are pelleted by SDSP and sold to an outside vendor.

Soybeans harvested in South Dakota can now be processed by a farmer-owned cooperative, which benefits not only growers, but the rural economy of the area. Photo courtesy South Dakota Soybean Processors.

To launch the cooperative, organizers conducted nearly 200 meetings, reached 6,000 farmers and developed a limited membership plan and a uniform marketing agreement. Members were initially required to purchase a minimum of $5,000 in shares. The board voted to build the $32.5 million plant in Volga, S.D. It is still the only soybean processing plant in South Dakota.

As of 1998, the cooperative had 2,092 members, about 70 full-time workers, an annual payroll of $2 million, total assets of $48.4 million and $29.2 million in member-owned equity in the plant. Sixty-eight percent of the $8.5 million in net proceeds in 1998 was returned to members as cash patronage refunds.

The cooperative's processing capacity was expanded from 50,000 to 65,000 bushels of soybeans per day in the first six months of the plant's operation, and later expanded again to 70,000 bushels. As has been the case in many similar projects, the site-selection process caused a temporary rift to develop among the founders of the cooperative.

Farmers and other community members needed a large amount of information to convince them to commit to the cooperative. SDSP would not have been possible without a group of very active individuals committed to achieving the goal of developing a soybean processing facility.

The plant has helped raise soybean prices in the area and has generated profits during its first two years of operation. However, continued vigilance by the cooperative's members and management will be critical to its continued success. They will need to monitor regional, national and global market conditions for soybeans and soy-based products.

Resources required for developing and operating a successful cooperative often are limited in rural areas. New-generation cooperatives, like other cooperatives, must operate efficiently, which requires sufficient member territory. On the other hand, SDSP's early success motivated local leaders to become involved with other value-added endeavors in the region and has inspired others to seek financial opportunities by participating in new-generation cooperative activities. Perceived negative impacts include heavier rail and truck traffic and possible reduced economic opportunities for local grain elevators.

The cooperative is credited with stimulating the local economy, creating new jobs, a higher tax base and new activity in service industry businesses. Directors and co-op members take a great deal of pride in having created a locally owned soybean processing cooperative in a market dominated by large, powerful multi-national companies and regional cooperatives.

The Dakota Growers Pasta Co.

The Dakota Growers Pasta Co. (DGPC) at Carrington, N.D., is recognized as one of the most successful new-generation cooperatives to emerge in the Great Plains. New-generation cooperatives such as DGPC appear to do best when they develop and/or exploit a niche value-added market. DGPC capitalized on the growing popularity of pasta and established itself in this expanding niche market.

In 1996, North Dakota was the country's leading producer of durum wheat, which is the primary input for DGPC pasta, but durum production has been hit by serious disease problems in recent years and production had been declining.

Dakota Growers mills its durum wheat into semolina, which is used to produce pasta products. The cooperative is one of only a few fully integrated pasta manufacturers in the United States. The cooperative was developed under nearly ideal conditions with substantial assistance from the state for feasibility and marketing studies and other facilitation assistance from the state association of rural electric cooperatives. Most of the 1,085 members reside in South Dakota. In 1997, DGPC had 247 employees.

DGPC state-of-the-art facilities turn durum wheat into high-quality semolina, durum flour, and millfeed;

Photo courtesy Dakota Growers Pasta Co.

the co-op then processes semolina using advanced Italian pasta processing equipment. By 1998, annual capacity reached 30 million pounds. Net revenues, sales, net incomes and patronage dividends have climbed steadily.

DGPC gave Carrington a psychological boost and came on the heels of an agricultural decline and very demoralizing time for farmers. The plant is credited with helping to boost durum prices substantially, although the smaller harvests have also played a role in the higher prices. Members gained a market for durum wheat, new crop research on durum and production advice from the cooperative. DGPC also benefited nonmembers by improving the market for durum wheat (non-members can access DGPC's grain-marketing pool). Members also learned about the food industry and why durum of the highest quality is required for production of pasta.

An improved tax base and more and better jobs are seen as major benefits of the pasta plant. Among negative factors cited by some is that the plant contributed to a housing shortage, increased traffic and a more transient population. This study reveals that, in addition to higher income, farmers also choose to join NGCs based on the likely impact on their community.

Locating a new-generation cooperative manufacturing plant in a community works best when community and cooperative officials focus on their shared interests. Strong, hard-working, visionary leadership is essential both to initiate the cooperative venture and to attract the manufacturing plant to a community. Farmers need information from trusted sources, including the cooperative's officials and leaders and neighbors in their own communities.

Western Areas Cities and Counties Cooperative (WACCO)

Local governments, especially those in rural areas, are facing a number of challenges. Population levels, particularly in the Great Plains, are stagnant or shrinking. Agriculture, long the economic bulwark for many rural areas, is undergoing a structural transformation toward fewer, larger, more vertically integrated and much more technologically sophisticated farms and ranches.

Consolidation means fewer potential local leaders, fewer children for the schools, and consumers who often bypass local stores. Resistance to increases in taxes, particularly the property taxes upon which many local governments depend, has created significant fiscal constraints. Within this context, Western Areas Cities and Counties Cooperative (WACCO) at Fergus Falls, Minn., was developed.

WACCO is a cooperative organization owned by the governments of seven counties and 18 small towns. It is a model that could have widespread application throughout the United States, especially in rural areas. Local governments nationwide are facing increasingly complex demands as activities previously performed by federal or state governments are being transferred to the local level. Citizens are also demanding more efficient delivery of services.

A common response to similar pressures in the private sector has been to consolidate into fewer, larger firms. There has been no parallel trend in the public sector. Resistance would likely be quite vigorous if two counties proposed a merger. WACCO allows local units of government to realize the economies of scale associated with consolidation without the real and emotional costs that come with disbanding existing local governmental structures.

WACCO's initial goal was to purchase municipal supplies and services (e.g., snow plow blades, road salt, office equipment and supplies) at reduced prices. By aggregating orders and acting as a broker with competing suppliers, WACCO generated significant savings for its members.

WACCO also has facilitated equipment sharing among member governments. It has created an inventory of equipment available in each of its member communities. Members negotiate rental terms among themselves. Leased equipment is moved from community to community as need arises. One community realized substantial savings by renting a rarely used piece of equipment from a neighboring municipality. This one transaction more than paid for annual dues to WACCO.

WACCO has become a major provider of training for local governmental employees. Prior to WACCO, training workers typically took place in the Twin Cities, at significant expense. WACCO has been able to bring trainers to western Minnesota. WACCO also acts as a clearinghouse of information and a liaison with state and national regulatory agencies.

WACCO estimates that during a typical year it saves members in excess of $500,000.

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Cooperatives, which played a key role in the evolution of the food system, are increasingly viewed as an institutional tool for enhancing farm profitability and fostering the development of rural communities. In the best cooperative development projects, there is a synergistic relationship between the project and the community. The cooperative benefits from the expertise and financial assistance of the state and local governments and the communities receive real (jobs, taxes) and intangible (psychological boost, model for others) benefits. ■

MANAGEMENT TIP

Consultant's feasibility study can predict success of 'next great idea'

James Matson
Agricultural Marketing Specialist
USDA-Rural Business Services

Editor's note: *This article is excerpted from the author's forthcoming report "Cooperative Feasibility Study Guide" (USDA/RBS Service Report 58), available soon on USDA Rural Development's website, www.rurdev.usda.gov.*

Farmers and their cooperatives continually search for that "next great idea." After they think they've found it, the real work begins.

Background studies are necessary to determine whether that great idea is viable and if farmers should invest time, effort, crops and money in it.

Feasibility studies are a useful tool and valid for many kinds of projects. Evaluation of a new venture, both from new groups and established businesses, is the most common application, but not their only use. Studies can help groups determine whether to expand existing services, build or remodel facilities, change methods of operation, add new products, or even merge with another business. A feasibility study can assist decisionmakers whenever they need to decide among alternative development opportunities.

This analytical tool used during the project planning process shows how a business would operate under an explicitly stated set of assumptions — the technology used (the facilities, types of equipment, manufacturing process, etc.) and the financial aspects of the project (capital needs, volume, cost of goods, wages etc.).

The feasibility study represents the first time in a project development process that the pieces are put together to see if they perform together to create a technically and economically feasible concept. The study also shows the sensitivity of the business to changes in these basic assumptions.

Feasibility studies contain standard technical and financial components. The exact appearance of each study varies, depending on the industry studied, the critical factors for that project, the methods chosen to conduct the feasibility study and the study budget. Emphasis can be placed on various sections of an individual feasibility study, depending upon the needs of the group for whom the study was prepared.

The objective consultant

The feasibility study evaluates the project's potential for success. Its perceived objectivity is important in determining the credibility placed on the study by potential investors and financiers. The creation of the study also requires a strong background both in the financial as well as the technical aspects of the project. That's why outside consultants conduct most feasibility studies.

Although in principle it is possible for a group member to conduct the study, outside consultants produce most feasibility studies. Prospective members and financiers see the objective evaluation of a concept as an important aspect of the study. This objectivity can provide helpful information that might have been overlooked by people participating directly in the project.

Hiring a consultant to create the study can be the most important decision in the creation of the study. The list below provides possible criteria for selecting a good consultant. A group should determine that the consultant is qualified to create the feasibility study for the particular project. Also, any consultant must be able to work well with the group.

Criteria of a Good Study Consultant

1. Previous experience conducting feasibility studies;
2. Experience with the industry to be studied;
3. Understands cooperatives;
4. Willingness to listen to the group's ideas;
5. Works closely with designated contact members of the group;
6. Accepts reasonable revisions to the submitted study;
7. Accomplishes the study within an agreed deadline;
8. Works within the group's designated budget;
9. Provides clear, useful information in the completed study.

Experience

Does the consultant have an adequate background to prepare the feasibility study? Before contracting a consultant, the group should review samples of previously prepared studies and speak with others for whom the potential consultant has worked.

If the project is of sufficient size and complexity, it may hire several consultants to complete various aspects of the feasibility study. Multiple consultants can reduce the dependency on a single person or company. It also can permit the group to select experts from several fields. However, it can complicate the coordination and consistency of the

information received.

The consultant preferably would have experience in the industry under study. The consultant may be an expert at creating feasibility studies but, if he or she has no knowledge of the specific industry, probably will not correctly identify critical factors for that industry. Given business complexity, it is almost impossible for one person to have experience in all areas of a business.

Often, a team of consultants assembles feasibility studies. For example, a cooperative development specialist from the USDA might work jointly with industry specialists to create the feasibility study. Some consulting firms resolve this issue by having feasibility specialists and contracting with industry experts to create a feasibility study.

Cooperative knowledge

The consultant should also understand the unique aspects of cooperatives. Tax implications and business considerations of cooperatives differ from those of other businesses. These factors could decrease or increase project risks. The consultant should be familiar with cooperatives to properly evaluate these effects.

The consultant should avoid preconceived notions about how the project will function. The study should not be an "off-the-shelf" document put together from previously created studies. Rather, the consultant should pay particular attention to the ideas that the group has developed and craft a unique study suited to their needs.

The consultant should work closely with designated members of the group and be receptive to their suggestions. Also, the consultant should be prepared to make technical revisions or to correct errors at their recommendation. Revisions are a normal part of the feasibility study process.

Revisions should focus on the validity of the assumptions and the technical design of the study. Using an outside consultant brings objectivity to the feasibility study rather than merely providing the results that group wants. Consultants have a legal obligation to provide a responsible analysis. They should not be asked to alter the results merely to conform to members' desires for a project's viability.

Meeting deadlines & costs

When selecting a consultant, timeliness is an important consideration. Projects are time sensitive. Usually, decisions to proceed await information provided in the feasibility study.

So care and diligence required to prepare a well-crafted study must be balanced against the desire for speed. If a qualified consultant cannot complete a well-designed study in a time frame that serves the group's needs, he or she should not be used.

On the other hand, the timeline must be realistic. A consultant can only progress as fast as a group makes the required decisions, provides information to the consultant and carries out its other project responsibilities.

Cost is an important factor. The expertise and skills that consultants offer a project must be weighed against their expense. A quicker timeline could increase the charge of a consultant. At times, preparing a pre-feasibility analysis can decrease the effort required to complete the feasibility study and reduce the cost.

Useful information

Some public programs offered by the USDA's Rural Business-Cooperative Service, community development offices, the Small Business Administration and local business incubator programs provide technical assistance at no, or minimal, cost to groups creating feasibility studies.

A consultant should be willing to provide the data used to generate the financial tables and scenarios reported in the feasibility study, and preferably an electronic spreadsheet format that can be easily manipulated. Though requesting this information can moderately increase the cost of a feasibility study, access to the actual data permits the group to use the information later.

This data can reduce the cost in creating the business plan, if the group proceeds to that stage. It can also decrease the effort required for revisions, if the group changes the project in the future to differ from those in the study.

Co-op managers and directors need to evaluate and to communicate up-front with consultants to ensure the final report provides sound advice for following up on that "next great idea."

Photo by Glen Liford, courtesy Tennessee Farmers Cooperative

The legal ties that bind

Once the consultant has been select-

ed, the group should give him or her detailed instructions on the requirements for the study. A paid consultant should be hired with a legally binding contract between the parties. The group should consult legal counsel for assistance with this contract.

The contract should state clearly the requirements and role of both the group and the consultant. It should have timelines, delivery dates, explicit deliverables and agreement on what is to be accomplished before payment is made.

Often consultants receive a down payment before the study begins. The balance is paid only after the study has been reviewed and accepted by the group (and, possibly, financiers, if appropriate). This gives the group more leverage to encourage timeliness or revisions.

The contract should designate a third party arbitrator to resolve any disputed items.

Before signing the contract, the group should discuss with the consultant arrangements for cost overruns, time delays and revisions. As Murphy's Law states, "Everything costs more and takes longer." The group should discuss with the consultant what considerations will be made for these issues.

Changes after signing the contract can be costly or delay the study results, so all parties should be clear what as to what is expected prior to initiating the study.

Reviewing the study

Selection of the consultant does not end the group's responsibilities. A qualified member or a small committee should be designated to work closely with the consultant. They work to assure that the feasibility study presents the ideas that the group identified for study. They track the study at all stages and work with the consultant reviewing and clarifying ideas during the study development process.

Members with appropriate abilities or backgrounds should be selected for this task. It is critical that these "contact members" commit sufficient time to work with the consultant. These members represent the group's interests to the consultant. They are the key contact for providing clarification and additional information that the consultant may require.

These members should give periodic reports regarding the progress of the feasibility study. They also should work with the other group members and advisors to gather the information needed to prepare the feasibility study. These members should express the wishes of the entire group and not their own.

Members or outside financiers will often judge the perceived reliability of the entire study based on its least accurate piece. An otherwise well-conducted feasibility study could be viewed as inaccurate or useless by a simple mistake.

To prevent this, the study should be carefully reviewed. It should be examined for overall clarity and logical consistency, and the appropriate questions should be asked. Is the language appropriate? Is the document well organized? Can someone who is not familiar with the project understand the study? The reviewers should confirm assumptions and assure that the assumptions have been explained.

The report serves as a compilation of project efforts. Potential members, financiers and others use this document to help determine their support for the project. The report should present conclusions from the study. It should be professional in its organization and its presentation. Details should be included such as a table of contents, page numbers and references that make understanding the document easier.

Although the contact members take on the lead in working with the consultant, the entire group should review the study carefully before deciding to accept it.

Advisors such as cooperative development specialists or extension agents can provide an objective review of the study and offer insights on content or assumptions. This outside review can be especially useful, when consultants have prepared the report.

The group refines the report before it is completed. Often a series of draft reports are presented as the study proceeds. Changes are then conveyed to the consultant.

Accepting the completed study

After the review is complete, the consultant normally makes a final report to present key findings and recommendations.

The group usually makes the preliminary decision to accept or reject the study. Often, the contact members who have been working with the consultant and have the most knowledge of the feasibility study, make a recommendation to accept or reject the study.

The final decision rests with at least the entire steering committee. In many circumstances, the entire group must grant final approval.

Approval should be based on the technical quality of the study. Does it fulfill the work expectations that the group had when contracting with the consultant? Do the ideas presented differ substantially from those of the members for the project? Does the study contain significant errors? Is the study sufficiently comprehensive to permit informed decisions about continuing with the project? If key information is lacking the group should decide to have the study revised.

A well-crafted, but negative, feasibility study can prevent the group from undergoing considerable trouble and expense to learn the same information later in the project process. By the same token, a feasibility study with a positive economic return should be scrutinized and not accepted merely because it makes the project seem possible.

Written records of the decision-making process should be made and kept in a safe place. Group members need to be aware of their legal responsibilities for due diligence. In the development of a project, an attorney should be kept appraised and provide appropriate legal consul.

The next great idea for your farm or your cooperative could be just around the corner. But before betting the farm on it, take time to hire a consultant to do a feasibility study to ensure you understand where that next great idea can lead you. ■

How well are dairy cooperatives performing?

By Carolyn Liebrand
Agricultural Economist
USDA Rural Development

Dairy farmers and their milk marketing cooperatives join the list of commodities to be hard-hit by volatile market prices last year. But let's take a step back to review the financial performance of these individuals and organizations at the end of the 1990s.

A picture of the financial performance of dairy cooperatives in the United States was developed from the results of a 1998 USDA survey. Detailed information on cooperatives' 1997 finances were collected as a special part of one of USDA's annual mail surveys of agricultural cooperatives. Thirty-nine percent of the nation's 226 dairy cooperatives supplied complete data. However, these 88 cooperatives represented about 96 percent of the total assets held and 90 percent of the milk handled by U.S. dairy cooperatives.

Overall, dairy cooperatives used $5.15 per hundredweight (cwt) of milk of total assets to market their members' milk in 1997. Of their total assets, 55 percent ($2.84 per cwt) were current assets; 26 percent ($1.32 per cwt) were net property, plant and equipment; and the remaining 19 percent ($1 per cwt) were investments in other cooperatives and assets (table 1).

On the other side of the ledger, total liabilities were 60 percent of total assets ($3.12 per cwt), current liabilities were 43 percent ($2.22 per cwt), and long-term liabilities were 18 percent ($0.90 per cwt). The remaining 40 percent of total assets consisted of member equity — both allocated ($1.70 per cwt) and unallocated ($0.34 per cwt).

Fluid milk and finished product sales by dairy cooperatives were $19.85 per cwt, which made up 88 percent of their total income. The second largest segment of income came from supply sales ($1.77 per cwt), but these were just 8 percent of total income. The other 4 percent of total income came from other sales, service receipts and other income, and patronage refunds from other cooperatives.

Net margins before tax was $0.30 per

Table 1—Consolidated balance sheet per cwt, by type of dairy cooperative, 1997

Item	Type of cooperative: Bargaining only		Bargaining-balancing		Hard-product manufacturing		Branded-cheese		Diversified & fluid processing		All	
	$/cwt	%	$/cwt	%	$/cwt	%	$/cwt	%	$/cwt	%	$/cwt	%
Current assets	.91	75.4	1.45	61.5	2.84	58.1	6.62	65.8	3.62	53.1	2.84	55.1
Net PP&E 1/	.13	11.1	.78	33.1	1.86	38.1	2.89	28.7	1.70	25.0	1.32	25.6
Investments in other co-ops	.13	10.6	.09	3.9	.17	3.5	.38	3.8	.81	11.9	.56	10.8
Other assets	.03	2.9	.04	1.5	.01	0.3	.16	1.6	.68	10.0	.44	8.5
Total assets	1.20	100.0	2.35	100.0	4.88	100.0	10.06	100.0	6.81	100.0	5.15	100.0
Current liabilities	.80	66.1	1.32	56.2	1.94	39.7	4.69	46.6	2.79	41.0	2.22	43.0
Long-term liabilities	.04	3.1	.22	9.4	.73	14.9	.90	9.0	1.31	19.2	.90	17.5
Total liabilities	.83	69.1	1.54	65.7	2.67	54.6	5.59	55.6	4.10	60.1	3.12	60.5
Allocated equity	.30	24.8	.78	33.0	2.08	42.6	3.55	35.3	2.23	32.8	1.70	33.0
Unallocated equity	.07	6.1	.03	1.3	.14	2.8	.92	9.1	.48	7.1	.34	6.5
Total equity	.37	30.9	.81	34.3	2.22	45.4	4.47	44.4	2.72	39.9	2.03	39.5
Liabilities and equity	1.20	100.0	2.35	100.0	4.88	100.0	10.06	100.0	6.81	100.0	5.15	100.0
Number of cooperatives	45		4		9		10		20		88	
Milk handled (million pounds)2/	19,632		16,475		5,434		1,265		71,627		114,432	

Note: Totals may not add due to rounding.
1/ Property, plant and equipment.
2/ Total milk volume handled by cooperatives, net of inter-cooperative transfers.

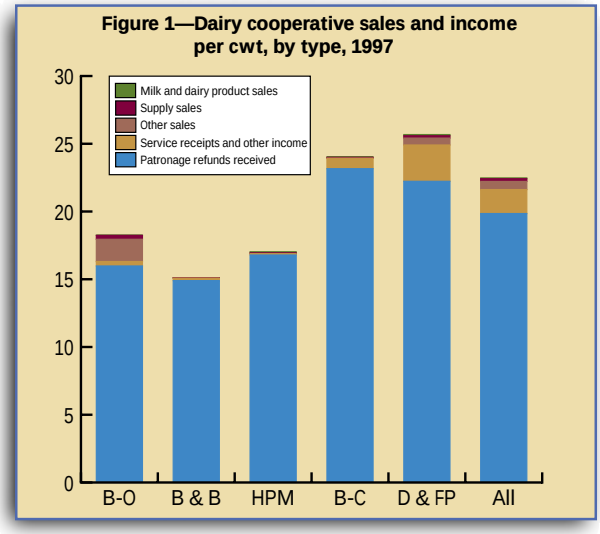
cwt. The ratio of net margins before tax to total income was 1.3 percent. Return on the assets used by cooperatives to market milk was 7.1 percent (measured by dividing net margins before taxes and interest expense by total assets).

Performance by group

A portrait was also developed by type of dairy cooperative, based on the variety of functions the cooperative performed to ensure a market for member milk. There were differences in the financial structure of cooperatives, depending upon their primary function. The following dairy cooperative categories were identified:

- bargaining-only — focus exclusively on negotiating milk prices and do not own plants;
- bargaining and balancing — bargain for milk prices and manufacture about 25 percent of the milk handled into commodity products in their own plants;
- hard-product manufacturing — most member milk used in their own, large-scale manufacturing plants where they make undifferentiated, commodity dairy products;
- branded-cheese marketing and fluid processing — typically process all their member milk in their own plants, manufacturing and marketing specialty or branded cheese, or bottled fluid milk, respectively;
- diversified — manufacture or process more than half the milk they handle into both differentiated and commodity products, as well as bargain for milk prices.

For this study, diversified and fluid processing cooperatives were grouped together.



Assets

Bargaining-only cooperatives used $1.20 to market 100 pounds of milk, while branded-cheese cooperatives used $10.06 per cwt. The other types of dairy cooperatives fell in-between this price spread.

Bargaining-only cooperatives' current assets of $0.91 per cwt accounted for 75 percent of their total assets. For the other groups, current assets made up between 53 percent (diversified and fluid processing cooperatives) and 66 percent (branded-cheese cooperatives) of total assets. Property, plant and equipment (PPE) accounted for only 11 percent of bargaining-only cooperatives' total assets, reflecting their lack of facilities. In contrast, PPE was 25 percent of total assets for diversified and fluid processing and 38 percent for hard-product manufacturing cooperatives.

Diversified and fluid processing cooperatives had the highest level of investment in other cooperatives and other assets, $1.49 per cwt, which was 22 percent of total assets. The others had low proportions of assets invested in other cooperatives and other assets, with the exception of bargaining-only cooperatives where investments in other cooperatives represented 11 percent of their assets.

Liabilities and equity

Total liabilities (current plus long-term liabilities) ranged from $0.83 per cwt for bargaining-only cooperatives to $5.59 per cwt for branded-cheese marketing cooperatives. However, liabilities made up the largest proportion of total assets for bargaining-only cooperatives, 69 percent, compared to the other groups of cooperatives, which ranged from 55 percent (hard-product manufacturing cooperatives) to 66 percent (bargaining-balancing cooperatives).

Diversified and fluid processing cooperatives had the most long-term liabilities, reflecting a greater investment in plants and facilities and reliance on borrowed capital. Long-term liabilities for the remaining groups ranged from 15 percent of total assets for hard-product manufacturing cooperatives to 3 percent for bargaining-only cooperatives.

Members of bargaining-only cooperatives held the lowest equity stake in their cooperatives, $0.37 per cwt (30.9 percent of

Table 2—Average financial profile of dairy cooperatives, by type, 1997

	Million dollars per cooperative					
Item	Bargaining only	Bargaining-balancing	Hard product manufacturing	Branded-cheese	Diversified & fluid processing	All
Total assets	5.3	38.7	66.3	14.1	243.9	67.0
Total liabilities	3.6	25.4	36.2	7.8	146.6	40.5
Total equity	1.6	13.3	30.1	6.3	97.3	26.5
Milk and dairy product sales	69.7	245.5	228.1	32.5	796.0	258.2
Net margins before tax	.3	3.4	6.5	1.4	12.9	3.9
Milk handled per cooperative (million pounds)1/	436	1,648	1,359	141	3,581	1,300
Number of cooperatives	45	10	4	9	20	88

Note: Totals may not add due to rounding.
1/ Net of inter-cooperative transfers.

total assets). Member equity in hard-product manufacturing cooperatives was 45 percent of total assets, the largest share among the groups. However, member equity per 100 pounds of milk was highest for branded-cheese cooperatives at 44 percent of total assets.

Most member equity was allocated (directly assigned to individual members), regardless of the cooperative's primary function. Bargaining-balancing and hard-product manufacturing cooperatives had the smallest portions of unallocated equity (not assigned to members) among the different types (4 percent and 6 percent of total equity, respectively). About one-fifth of the branded-cheese and bargaining-only cooperatives' equity was unallocated.

Sales and income

Milk and dairy product sales per hundredweight ranged from $14.90 for bargaining-balancing cooperatives to $23.16 for branded-cheese cooperatives. Ninety-nine percent of the hard-product manufacturing cooperatives' income came from milk and dairy product sales, $16.79 per cwt, the highest proportion among the groups (fig. 1). Milk and dairy product sales of $22.23 were 87 percent of total income for diversified and fluid processing cooperatives, the smallest proportion among the different types.

However, diversified and fluid cooperatives had the largest proportion of supply and other sales (12 percent of total income) along with bargaining-only cooperatives where 11 percent of total income was from the sale of supplies and other items. The other three types of cooperatives had minimal sales of these types.

Net margins

Net margins before tax per 100 pounds of milk ranged from $0.06 for bargaining-only cooperatives to $0.98 for branded-cheese cooperatives. Hard-product manufacturing cooperatives had the second largest net margins before tax, followed by diversified and fluid processing and bargaining-balancing cooperatives.

Branded-cheese cooperatives realized the highest profit margin (4.1 percent of total sales). Hard-product manufacturing cooperatives yielded the second highest net margins to sales (2.8 percent). Diversified and fluid processing cooperatives' net margin was 1.4 percent of sales, and similarly, bargaining-balancing cooperatives' was 1.3 percent of total income. Bargaining-only cooperatives generated the lowest net margins (0.3 percent of total income).

Average

The average (per cooperative) financial statement for each type highlights the magnitude of their differences (table 2). Diversified and fluid processing cooperatives were the largest cooperatives, on average, in terms of total assets, milk and dairy product sales, net margins, and volume of milk handled. On average, diversified and fluid processing cooperatives used almost 50 times the assets used by bargaining-only cooperatives and four times the assets used by the second largest type of cooperative in terms of assets — hard-product manufacturing cooperatives.

Diversified and fluid processing cooperatives' average milk and dairy product sales were more than three times larger than for bargaining-balancing cooperatives, the second largest type in terms of average sales. Branded-cheese cooperatives had the lowest average milk and dairy product sales per cooperative, reflecting their generally smaller size.

Diversified and fluid processing cooperatives had the highest net margins, on average, almost twice those of the next highest. Branded-cheese cooperatives had the second smallest net margins. But, these were more than four times the average net margins of bargaining-only cooperatives and were generated with less than half the average milk and dairy product sales of bargaining-only cooperatives, an indication of the value-added nature of branded-cheese cooperatives' operations.

To obtain a copy of the full report, visit our website at: www.rurdev.usda.gov/rbs/pub/research.htm. ■

Continued from page 10

attract new businesses to rural areas, plus help existing businesses expand. In addition, PREA and its member-cooperatives undertake projects that improve both rural infrastructure and the rural quality of life - cornerstones to economic development and job creation.

"We are perceived as rural advocates," Biggica added. "We did not get into the business of electricity for the money-making end of it. We are in the electricity business for quality of life issues. You can have the best economic development plans in the world, but if you don't have sewers and roads and good schools — if you don't have a good infrastructure — your economic development plans don't work."

As rural advocates, PREA officials expect to sign a memorandum of understanding with the Pennsylvania environmental department to establish the first-ever public-private partnership in septic system installation. Under the agreement, rural cooperatives not only financed research into the new technology but will also have a hand in ensuring it is properly licensed, installed and managed.

"With our reputation, we got through the regulation system three times faster than other groups coming forward with new technology," said Biggica. "And now we have the regulatory agency acknowledging that they trust us enough to ensure the technology is used correctly." ■

– Pamela J. Karg, Field Editor

Blue Diamond Growers has acquired MacFarms of Hawaii, which markets $30 million worth of macadamia nuts annually. Photo courtesy Blue Diamond Growers

Blue Diamond buys MacFarms

Blue Diamond Growers, Sacramento, Calif., is acquiring MacFarms of Hawaii, one of the nation's largest macadamia nut retailers, from Campbell Soup Co. for an undisclosed price. The deal will be financed entirely from the cash flow of MacFarms, which last year generated sales of $30 million, according to Walt Payne, president and chief executive officer of Blue Diamond. The purchase includes 3,900 acres of macadamias and a processing plant in South Kona, Hawaii.

Payne added that Blue Diamond is no stranger to the macadamia markets. The cooperative has been marketing MacFarms' nuts to businesses worldwide as an ingredient for such food products as cookies and candies for nearly two decades. During that period, MacFarms has become the global leader in ingredient, or industrial sales. Now, as owner of MacFarms, Blue Diamond also will market MacFarms' retail product, which today represents about half the annual MacFarms sales.

Cenex Harvest States names new CEO

North Dakota native John D. Johnson is the new president and chief executive officer of the producer-owned Cenex Harvest States Cooperatives. He succeeded Noel Estenson, who retired June 1. Johnson, 51, joined the former Harvest States Cooperatives in 1976 as a feed consultant, later becoming a regional sales manager and finally general manager of the GTA Feeds division. In 1995, he was named Harvest States president and CEO. Johnson became president and general manager of Cenex Harvest States when the co-op was formed in June 1998. Estenson, 61, joined Cenex as a credit manager in 1963 and rose through the ranks to become president and CEO in 1987. He was named CEO of the merged Cenex Harvest States in 1998.

John D. Johnson

McLean new USDA/RUS leader

Christopher A. McLean has been sworn in as administrator of the Rural Utilities Service (RUS) of USDA Rural Development. McLean succeeds Wally Beyer, who retired October 31, 1999.

"Chris McLean is dedicated to the biggest task RUS faces today — making sure that rural America is not left behind as we advance into the information age," Agriculture Secretary Dan Glickman said. "He comes prepared to help rural Americans meet their needs for safe drinking water, modern telecommunications and an adequate supply of electrical power."

As the administrator of RUS, McLean will oversee financing for rural electric cooperatives, telecommunications and water programs, and administer the distance learning and telemedicine loan and grant program. The RUS loan portfolio contains over $42 billion in investments in rural utility infrastructure. McLean will also serve as governor of the Rural Telephone Bank, a public/private lending institution that promotes rural telecommunications infrastructure.

Previously, McLean worked in the U.S. Senate for more than 15 years,

serving as a legislative assistant and legal counsel to Sen. James Exon of Nebraska, and later as legislative counsel to Sen. Bob Kerrey, also of Nebraska. While at the Senate, he worked on telecommunications, budget, transportation and trade issues. He was instrumental in crafting the universal service and rural provisions of the Telecommunications Act of 1996.

McLean received a B.S. and J.D. from Creighton University, Omaha, Neb. He also holds a Master of Laws degree from Georgetown University.

Internet-based meat exchange forms

IBP, Cargill, Smithfield Foods, Tyson Foods, Gold Kist and Farmland plan to invest $20 million to create an Internet-based meat market. The four investor-oriented firms will each control 21.5 percent of the new company while the two cooperatives will each control 7 percent. Buyers on the exchange will pay subscription fees and there will be transaction fees and advertising to cover the cost of the operation. Each of the six companies will still compete through this new channel as well as through traditional channels.

Farmington co-op buys new technology

A small Farmington, Maine, cooperative has purchased a portable grain roaster that can process grains, corn and soybeans into a nutritious, tasty animal feed. Maine farmers hope it will translate into large savings so they no longer have to buy processed feeds from other states or Canada.

The machine was put through its paces when a truckload of locally grown soybeans was poured through a chute into the gas-powered roaster and heated to 280 degrees. The machine roasts and cools the product to air temperature at a speed of 12 tons per hour.

This is the only grain roaster in the state, said John Harker, of the state Department of Agriculture. Farmers looked into buying them, but the cost was prohibitive. This year, grants and loans became available, and the local co-op took the initiative.

"Importing feed has been the highest cost for dairy farmers," Harker said. "This machine will reduce their costs and will also give them the opportunity to expand their soybean production."

The department contributed a $10,000 grant and a $15,000 low- interest loan toward the $30,000 purchase. The group took out a loan from Finance Authority of Maine, and four farmers in the cooperative pitched in $5,000 apiece.

Citrus World to buy plant

Citrus World Inc., Lake Wales, Fla., has purchased the Sun Pac Foods Inc. citrus processing plant in Bartow for an undisclosed price. "We need the Sun Pac facility to keep up with production of our premium juice products," said Steve Caruso, chief executive officer of Citrus World, parent company of Florida's Natural Growers. "Our plans are to grow this business."

The plant employs 80 people and processes about 5.5 million boxes of oranges into juice annually. Citrus World plans to retain current employees and expand the facility sometime in the future. Sun Pac, based in Brampton, Ontario, Canada, had been processing oranges under contract with Citrus World since 1994.

Florida's Natural Growers is the largest citrus cooperative in Florida, with 12 member organizations representing more than 1,000 growers and 60,000 acres of citrus groves. It processes more than 20 million boxes of oranges into frozen concentrated and not-from-concentrate juice. It markets under brand names such as Florida's Natural, Grower's Pride, Donald Duck, Bluebird, Adams and Texsun.

Apple cooperative to close

Chief Tonasket, Okanogan County, Wash., closed its apple packing cooperative this summer, putting 80 employees out of work. In the past decade, the 72-year-old co-op went from packing about 90,000 bins of fruit to 27,000 bins last year.

"It's very, very sad, but basically the hole was too deep," General Manager Steve Skylstad said. Most of the Chief Tonasket employees were laid off in mid-July after the remaining Red Delicious apples in storage from the 1999 crop were sorted and packed. Most employees were seasonal, but about 12 were full time. Chief Tonasket once packed apples for 80 farmers, but only 15 remain. They will have to find new warehouses.

Chief Tonasket's annual payroll is $1.2 million, much of which is spent

Kentucky grain farmers eye ethanol plant

Kentucky Gov. Paul Patton recently presented a USDA grant for $95,000 to a group of western Kentucky grain producers to finance a study on ethanol production. Patton delivered the check from USDA Rural Development to Ronald Berry, president of the Hopkinsville Grain Elevator. The 2,200-member cooperative of grain producers from 17 western Kentucky counties plans to use the money to match $30,000 in state money and pay for a study assessing the feasibility of ethanol production.

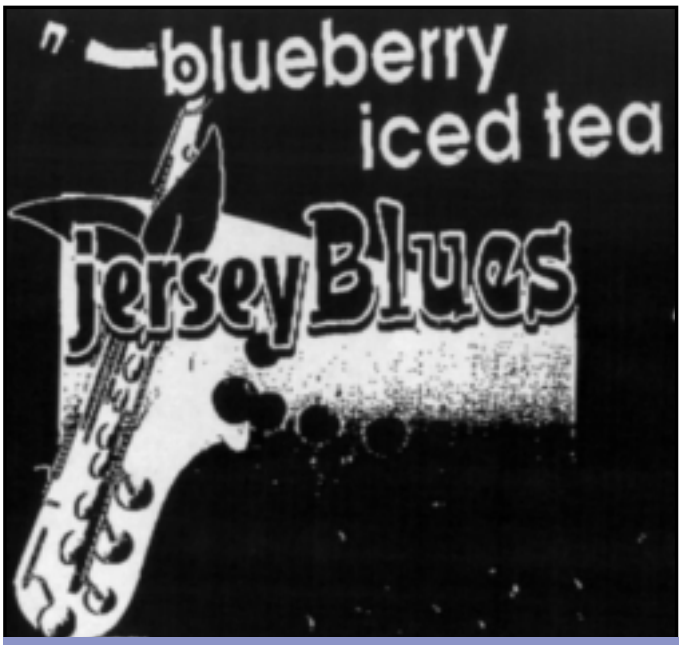
"While commodity prices remain at historically low levels and changes in tobacco production present additional downward pressures in our rural economy, it is essential that we look together at new and innovative ways to add value to our traditional farm products," Patton said.

in local businesses, Skylstad said. Local orchards that were ripped out after the disastrous 1998 apple crop were part of the problem. Also, farmers who raise high-quality fruit left the co-op to get more money at packinghouses in Brewster and Wenatchee. About 80 percent of the co-op's tonnage was in old varieties of Red Delicious apples. Those Reds have brought the lowest selling prices in recent years.

No figures are available to show how many of Okanogan County's 29,000 acres of orchards have been removed since 1998, but some industry leaders believe up to 20 percent are no longer producing fruit.

N.J. to sell new blueberry products

A new blueberry venture is seeking to create a market for a "JerseyBlues" iced tea. Also hitting fruit stands and some stores this summer is a mashed blueberry spread called pomace. The products are being test-marketed in New Jersey and Japan. They were developed by researchers at Rutgers University as a way to raise blueberry prices, which have been depressed. Project sponsors include Rutgers, USDA and the Pinelands Commission, a state agency that manages the 1.1-million-acre Pinelands national reserve.



Blueberry tea may just be a hit with consumers — it's the right color for kids and it's healthy, which adults appreciate.

In 1998, New Jersey farmers produced 36 million pounds of blueberries worth $28.4 million. The 79 cents a pound that farmers received that year was well below the $1 per pound they earned in 1997 and the all-time high of $1.61 per pound in 1978.

Sandy and acidic soils of the Pine Barrens, covering 22 percent of the state, are perfect for cultivating berries and have made New Jersey second in the nation in blueberry production, behind Michigan, and third in cranberry production. However, cranberry prices plummeted from $55 a barrel in 1997 to roughly $10 this year, primarily because of a production surge that outpaced static demand.

In New Jersey, hundreds of acres of blueberry fields were converted into cranberry bogs. From 1993 to 1998, cranberry farming jumped nearly 600 acres, to 3,980; during the same period, blueberry acreage dropped from 8,100 to 7,500.

Blueberry growers then lobbied the state to impose a fee of six-tenths of a cent per pound, in part for research and development. Some money went to the Rutgers project, along with a $95,000 grant from the USDA, $29,000 from the Pinelands Commission, $36,000 from the New Jersey Agriculture Experiment Station, and $5,000 from the state Farm Bureau.

To market the products, growers incorporated Blueberry Health Inc. Its goal is to make blueberry juice as mainstream as orange, apple and cranberry juices. Growers predict blueberries could be especially big among consumers because of their potential health benefits — they are among the richest sources of certain antioxidants that some studies have linked to slower aging and reduced cancer risk.

Honse to take over Farmland reins

The Farmland Industries board of directors has named Robert W. Honse to the position of president and chief executive officer, effective Sept. 1. At the same time, the board appointed Farmland's current president and CEO, H.D. "Harry" Cleberg, as consultant to Honse from Sept. 1 to Dec. 31.

Robert W. Honse

Honse holds a bachelor's degree in chemical engineering from the University of Virginia and joined Farmland in 1973 as project manager at its Lawrence, Kan., fertilizer plant. In 1986, he became general manager at Farmland's phosphate manufacturing operations in central Florida. Since returning to the co-op's headquarters in Kansas City in 1989, Honse has held a variety of senior management positions, most recently as Farmland executive vice president and chief operating officer.

Upstate Farms expands milk facility

Upstate Farms Cooperative is planning a multimillion-dollar expansion of its milk production and distribution facility in Cheektowaga, N.Y., a change that will trim 25 jobs at its Jamestown plant. Relocation of milk processing operations from Jamestown to the cooperative's facility in Cheektowaga, effective Sept. 8, will cut eight jobs from the Jamestown payroll. Another 16 jobs will be cut in June 2001, according to David Crisp, Upstate Farms chief operating officer.

Upstate Farms is expanding its Cheektowaga plant by 27,000 square

feet, adding more cooling and storage capacity. The cooperative recently purchased a vacant office building in Cheektowaga, which it expects to use for administrative personnel. Upstate Farms, owned by some 400 dairy farmers, produces more than 200 products under Upstate Farms, Bison, Milk For Life and Aahhh! labels. The Cheektowaga liquid products plant employs 175 workers, and its Bison cultured products plant, in Buffalo, employs another 120 in the production of yogurt and chip dip.

States launch inquiry into big dairy

Massachusetts, Connecticut and Vermont have launched an antitrust investigation into the growing market clout of Suiza Food Corp., a Dallas-based dairy processor that one study says now controls 70 percent of the region's milk supply. The attorney general's offices of the three states joined forces in the inquiry, officials said. Suiza has rapidly emerged as the major player in the New England milk market through an aggressive strategy of buying smaller dairies. But regulators are concerned that this expanding market share threatens to limit choices for both farmers and consumers.

Over the past three years, Suiza has bought Seward's Dairy, Rutland, Vt.; Garelick Farms, Franklin, Mass.; Nature's Best Dairy, Cranston, R.I.; New England Dairies Inc., Hartford, Conn.; and Grant's Dairy, Bangor, Maine. It also has acquired the milk processing facilities of Canton-based Cumberland Farms Inc. in Massachusetts and in New York, and processing plants owned by West Lynn Creamery in Massachusetts.

As Suiza has bought milk companies, it has closed four processing plants in New England, a consolidation that effectively limits the market for farmers and dairy co-ops, the states claim. The company's buying spree has already begun to affect some Vermont farmers. In February, the St. Albans Cooperative Creamery learned that it was going to lose its long-time co-packaging customer, Stop & Shop Supermarkets, to Suiza. ■

LOL sells fluid plants, continues cheese plant study

Illinois-based Dean Foods Co. is buying the Upper Midwest fluid milk operations of Land O'Lakes (LOL) Inc. The companies also are forming a joint venture to market and license some products to expand their reach. Terms of the agreement, closed July 1, were not disclosed. The deal is subject to regulatory approval.

LOL, Arden Hills, Minn., is a food and agricultural cooperative doing business in all 50 states and more than 50 countries. Dean Foods, Franklin Park, Ill., is a processor and distributor of regionally branded and private-label dairy products. The purchase includes four fluid dairy plants — in Woodbury, Thief River Falls and Bismarck, N.D., and in Sioux Falls, S.D., as well as a new extended-shelf-life dairy plant at Richland Center, Wis. The division generates annual sales of about $310 million and markets a full line of fluid milk, yogurt, creams, sour cream and cottage cheese, 85 percent of which is sold under the Land O'Lakes brand name. The two businesses will each hold a 50 percent stake in the joint venture that will develop and market cream, half and half, sour cream and extended-shelf-life products.

"The joint venture allows us to extend the reach of our most innovative fluid dairy products, and we will use the proceeds from the sale to build and strengthen our core businesses on behalf of our members," said Chris Policinski, Land O'Lakes executive vice president and chief operating officer of the dairy foods value-added group. Meanwhile, the Midwest would make an excellent home for what would be the largest cheese plant in the eastern United States, according to a feasibility study by LOL and Alto Dairy Cooperative, Waupun, Wis. The two proposed building the plant earlier this year. Executives with the cooperatives said the facility would ultimately handle more than 1.7 billion pounds of milk annually, generate more than 100 jobs and include an annual payroll of about $6 million.

The feasibility study said Upper Midwest dairy producers have an advantage in resources, particularly water and crop production. They also have edges in experience, expertise, long-standing production and processing infrastructure, market presence and reputation. Officials with both cooperatives said they would study the possibility of building the plant in Wisconsin, the nation's leading cheese producer. The state lost market shares to newer and larger plants in California and other western states in the 1990s.

But Alto and LOL leaders have yet to decide to build the plant. Besides location, issues include environmental requirements, construction costs, financing options and economic support. No timetable for a final decision has been set.

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