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# Basics of Organizing a Shared-Services Cooperative



# Preface

A shared-services cooperative is a business organization owned and controlled by private businesses or public entities that become members of the cooperative to more economically purchase services and/or products.

Members of shared-services cooperatives respond jointly to common problems. Rural Americans depend on community services provided by their schools, hospitals, small businesses, churches, local governments, etc. These organizations can use **shared-services** cooperatives to lower their operating costs by jointly obtaining needed services and products.

## Purpose

This manual provides basic information on how potential members can organize a shared-services cooperative. The process is often complex and potential members should seek the advice of a cooperative development adviser. This manual will also help loan specialists in the Rural Business and Cooperative Development Service (RBCDS) and in private institutions to determine if an applicant sufficiently followed procedures which would increase the applicant's chances of success.

## Examples

Examples of shared-services cooperatives include groups of employers that formed alliances to buy health care insurance or to purchase health care services directly from hospitals and physicians. School districts can organize cooperatives to provide special education programs as well as purchase products for member districts. Hardware stores, restaurants, independent pharmacies, rural electric cooperatives, local food retailers, and natural food stores have formed shared-services cooperatives that operate as wholesalers. These cooperatives can serve most any type of business enterprise.

## Basic Steps for Organizing a Shared-Services Cooperative

The basic organizing steps include holding an exploratory meeting, selecting a steering committee, surveying potential members, developing a comprehensive business plan, incorporating the cooperative, and implementing the business plan. During this organizing period, it is important to have an adviser who can assist potential members.

## **Cooperative Incorporation**

Most shared-services cooperatives are legally organized as a cooperative or as a non-profit corporation that operates on a cooperative basis. Each of these organizational structures is distinct. The structure chosen depends on the needs of members and on State law. In some States, for example, public entities or non-profit corporations cannot form a cooperative business, but must organize jointly as a non-profit corporation that operates as a cooperative.

This manual focuses on the formation of a legally incorporated cooperative. Groups interested in forming a nonprofit corporation will follow similar steps. However, the rules and procedures will differ. These groups should seek a specialist in non-profit organizations to help them organize.

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# Basics of Organizing a Shared-Services Cooperative

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A shared-services cooperative is defined as a group of private businesses or public entities that form a cooperative corporation to provide one or more services that enhance or increase the competitiveness of their operations. The role of these cooperatives is to provide services in response to the specific needs of member-owners. These organizations become an extension of the individual members' operation.

These cooperatives can offer a wide array of services including purchasing of products or support services such as accounting, management information, staff education, insurance, and legal assistance. Services provided will depend on the needs of members.

Services are developed and designed as needed by the board, committees, and often, by the members themselves. Most cooperatives begin by offering a single service. New and more complex services may be added as the cooperative matures. For example, a cooperative may start by purchasing an item for its members because it is in short supply. In time, members may voice a need for different items, so the cooperative can respond by purchasing additional products for its members. The only limitation is the creativity of the cooperative's staff and members.

Examples of shared-services cooperatives include:

Health

S o m e e m p l o y e r s h a v e f o r m e d a l l i a n c e s t o b u y

~~Wholesale~~ independent retail businesses such as hardware stores, restaurants, independent pharmacies, rural electric cooperatives, local food retailers, and natural food stores have formed a

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<sup>1</sup> Authors are listed alphabetically. Senior authorship is shared equally.

number of shared-services cooperatives. These cooperatives operate as wholesale businesses. They may also provide services such as advertising, strategic planning, and volume purchasing discounts.

**Educational service agencies** — Regional and State agencies have been established by school districts to provide various services. These agencies negotiate lower prices for supplies, health insurance, and legal and other services through volume purchases. They also provide supplementary or special education programs, teacher training, and administrative services.

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## Structure and Operations <sup>2</sup>

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The goal of shared-services cooperatives is to purchase or provide products and/or services for its members at a total cost that is less than the combined costs that individual members would incur themselves. The goal is to generate savings captured through lower administrative costs, quantity purchasing discounts, and assured levels of business with vendors and suppliers. By purchasing cooperatively, individual businesses or governmental entities can increase the efficiency of their buying activities.

Because these organizations are formed as a cooperative, they have several structural and operational characteristics that make them different from other types of businesses:

1) A shared-services cooperative is owned by the private businesses or public entities that use it. For example, a pharmacy shared-services cooperative is owned by the independent pharmacies that purchase prescription drugs and/or over-the-counter products through the cooperative. An office supply cooperative is owned by the businesses that purchase office products through it.

The member-owners of the cooperative are responsible for paying fees and assessments, participation in the governance and operation of the cooperative, and using its services. Membership support via patronage is important. Without it the cooperative cannot succeed.

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<sup>2</sup> d e t a i l e d  
*Shared-Services Coopera* **RBCDS, Research Report 141.**

2) A shared-services cooperative is controlled by the private businesses or public entities that own and use the business. The cooperative is controlled by its member-owners through a board of directors (elected democratically from among the member-owners) and through participation in membership meetings and committee work. The board sets the overall operating policies, approves the annual budget, oversees its operation, and distributes the benefits derived from use of the cooperative. The board also hires professional management to handle the day-today operations of the cooperative. The manager hires needed staff and implements the board's policies.

3) A shared-services cooperative operates to provide benefits to its members as users, not as investors. While the goal is not to generate a return on investment, operating budgets are developed so expected income exceeds expected operating costs. The cooperative, like any other business, needs to cover costs and generate an excess to cover expansion and unforeseen emergencies.

Operations of shared-services cooperatives are financed through capital provided by member-owners and debt capital. Ownership capital is defined as the money a cooperative obtains without having a legal obligation to repay it. Initial investments by members are part of the cooperative's ownership capital. Debt capital is money borrowed from a financial institution with a legal liability to repay the funds. A shared-services cooperative usually generates income through its fee structure. Part of the earnings generated when income exceeds costs of operation can be retained by the cooperative as ownership capital. The rest is refunded to members based *on* their use of the cooperative, not *on* their investment in the cooperative.

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## Benefits <sup>3</sup>

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The joint ownership and operation of a shared-services cooperative offer some major benefits to its member-owners.

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<sup>3</sup> The benefits and challenges discussed are based on interviews with 19 shared-services cooperatives conducted for this report and for Shared-Services *Cooperatives*, RBCDS Research Report 141.

## **Empowerment/Control**

By owning the organization that provides services and products, members of shared-services cooperatives can exercise more control over a major component of their business, namely the price and quality of services and products they wish to buy.

## **Stability and Reliability**

Shared-services cooperatives provide members with a stable, long-term organization to meet various needs. The cooperative needs the commitment of its members, but at the same time offers a constant, supportive access to products and services.

## **Networking**

A shared-services cooperative offers members an opportunity to meet and discuss problems and topics of mutual concern. This can occur at all levels of the members' organizations. In some instances, ad hoc committees of members' employees define and recommend solutions for specific issues. For example, a committee of janitors might evaluate cleaning products or speech therapists might develop training programs.

## **Flexibility**

Shared-services cooperatives are often flexible in the types and magnitudes of services. Services offered are based on the needs and wants of members. As members' needs change over time, cooperatives can respond by adjusting their services. The ability to respond to change depends upon the purpose and objective of the organization.

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## **Challenges**

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Although the advantages discussed make shared-services cooperatives a viable alternative for many businesses and public entities, potential members must recognize and consider the challenges encountered in organizing and operating this type of cooperative.

### **Financial**

Some cooperatives lack the capital to develop and implement new programs when needed. Members have responsibility for capitalizing their business. For newly organized cooperatives that depend upon grants as a



source of income, financial stress can be critical when this funding ends and no other source is in place.

### **Competition Among Members**

Cooperation among members is a vital element of the cooperative philosophy and spirit. If members are in the same type of business and serve the same customers, the chances of members being competitors outside of their cooperative increase. The need to share services in a cooperative business structure may help to increase cooperation among members.

### **Lack of Membership Support**

Members need to support their cooperative by purchasing supplies and services from it. If members see their cooperative as a competitor or fail to use its services, the cooperative will have difficulty implementing and sustaining new programs. Without member support, a cooperative's financial stability may falter.

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## **Starting a Shared-Services Cooperative**

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The idea for a cooperative begins with a group of people discussing a common problem and how to solve it. The time needed to start a cooperative depends on many factors—leadership skills, the complexity of the proposed plan, and availability of capital. Time can range from several months to several years. However, with commitment, focus, and careful planning, the odds are good for successfully organizing a shared-services cooperative.

The basic steps involved in organizing a shared-services cooperative are discussed in this section. Depending on the circumstances, some steps may occur in a different order or simultaneously. Regardless of the project, the process involves identifying needs, measuring interest, determining financial feasibility, and organizing legally.

### **Basic Steps To Organize a Shared-Services Cooperative**

1. Hold exploratory meeting of owners of businesses or public entities to determine a need for forming a cooperative. (This may be a telephone conference.) Vote on whether to continue.

2. Select a steering committee.
3. Conduct an economic feasibility analysis.
  - a. Survey potential members to determine needs.
  - b. Conduct market analysis to identify sources of services and products.
  - c. Prepare and analyze financial projections.
  - d. Discuss the findings and vote on whether to proceed.
4. Develop a business plan based on the assumptions and results of the financial analysis. Conduct a meeting to discuss the plan and vote on whether to proceed.
5. Prepare necessary legal papers and incorporate.
6. Adopt bylaws and elect a board of directors.
7. Implement the business plan.
  - a. Complete membership **signup**.
  - b. Finalize agreements to acquire capital. Finalize all other agreements such as a purchasing agreement.
  - c. Hire the manager.
  - d. Acquire facilities, hire employees, and begin operating.

### **Leadership and Advisers**

A cooperative should be developed by its potential members. These individuals must choose leaders from their ranks to devote the time and energy to make the cooperative a reality. Most groups will also need a sponsor or technical assistance provider to help them throughout the planning and development process, as well as in the first stages of operation. An adviser should be familiar with how to form a cooperative and discuss its legal, economic, and financial aspects.

A sponsor or technical assistance consultant may provide a range of services in helping to organize a shared-services cooperative. They include:

- Provide information on alternative choices.
- Define needs and interests.
- Determine the feasibility of a cooperative.
- Secure professional services (e.g., attorney, accountant, etc.).

- Develop a financial plan, including member capital, government, commercial, and community capital sources.
- Assist with incorporation and other legal matters.
- Develop business or operating plans.
- Create educational programs for members and the board of directors.

Cooperative members should work as closely as possible with the sponsor/adviser during the organizational process. However, the cooperative should avoid becoming overly dependent on a sponsor, especially once it is established and operating. Members and the board of directors must become knowledgeable enough to run the affairs of the cooperative. Likewise, sponsors/advisers must understand that their role is to advise and support. Decisions must come from members.

### **Exploratory Meeting**

An exploratory meeting is held with people whose needs might be met by a cooperative. Meetings can be publicized through word-of-mouth, announcements at other meetings, telephone, letter, newspapers, or other available means. The outside adviser should be invited to this initial meeting. Discussion topics should include:

- Economic need(s).
- How the proposed cooperative might meet the identified need(s).
- Cooperative principles, terminology, and operations.
- Advantages and disadvantages of a shared-services cooperative.
- Member commitment to finance and patronize the cooperative.

A representative from a successful cooperative could also be invited to explain its operations, benefits, and limitations.

At the first meeting no commitments are made to become a member or set policies. If the group decides to pursue a more detailed study, a steering committee should be selected.

### **Steering Committee**

The steering committee's job is to guide the group through the cooperative development process. The committee should consist of people who are interested in the proposed cooperative and can make sound business judgements. Steering committee members often go on to become members of the cooperative's first board of directors.

The steering committee has two main responsibilities. The first is

judging whether the proposed cooperative is likely to succeed and benefit its members. Secondly, if it does, the committee prepares a specific, detailed business plan for the new cooperative.

The committee's first function is to select officers, either at the close of the general meeting or shortly afterward. Next, in cooperation with the adviser, establish a deadline for completing a business analysis, including a target date for a member survey. Progress should be checked at periodic meetings.

## **Economic Feasibility Analysis**

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needs, level of interest, and financial situation of prospective members by conducting a survey. The questionnaire should focus on identifying the types of products or services needed, as well as include questions about quantity, quality, suppliers, and costs. A sample potential membership survey is found in Appendix A.

**Market Analysis** — The committee will evaluate the potential sources of products and services for members and compare the type of product, the quality, and prices for potential suppliers.

**Financial Analysis** -**This** is the most important part of the economic feasibility analysis because it will help potential members know how much it will cost to provide desired services and how much income must be generated to cover those costs. This, in turn, will help potential members and others decide whether or not the proposed cooperative is financially feasible.

The financial analysis is based on basic operating assumptions including needed facilities, operating costs, capitalization, and financial requirements. The level of services to be offered and/or the volume of products to be purchased through the cooperative must also be estimated. The financial analysis should cover two broad areas—capitalization and operational feasibility.

Capitalization is the amount of money needed to start and maintain the cooperative over the long run. The steering committee needs to recommend a plan of capitalization including: 1) deciding whether the capital structure is to be stock or nonstock; 2) estimating the amount of mem-

ber equity capital; and 3) estimating the amount of debt capital and potential sources. The capitalization plan should include the amount of needed reserves and the method of providing them.

The capital structure for a cooperative in most States may be stock or nonstock. In a capital stock organization, members are issued stock certificates as evidence of their capital subscriptions. More than one type of stock may be issued, but usually no more than two are necessary. The first stock (common stock) issued is one share per member to show membership and voting rights. The additional stock (preferred stock) may be issued to show further capital investment.

A nonstock organization issues a certificate (usually a revolving-fund certificate) to show capital investment of members. Many nonstock cooperatives raise some or most of their original member capital via a membership fee.

**Equity capital** — the amount of money members invest in the cooperative — can come from initial membership fees, additional cash investments, and from transacting business with the cooperative. The initial equity capital requirements from each member will be determined by the projected cost of facilities, estimated day-today volume of business, and the estimated number of members and their volume of business with the cooperative.

Investing initial capital is a basic member responsibility and each member's share of initial capital should be large enough for the members to realize that he/she has a financial stake in the business to protect. Members should invest in proportion to their expected use. Some members may be able and willing to contribute more than their share. If so, they should be allowed to do so through purchase of preferred stock.

There are several sources of debt capital for shared-services cooperatives. Cooperatives can borrow from private banks, National Cooperative Bank, various local and regional development funds, and State and Federal sources, including USDA's Rural Business and Cooperative Development Service. Debt capital can be short term or long term. Short-term debt is usually used to finance operations. Long-term debt is used to acquire assets.

The second part of the financial analysis is the development of projected cash-flows, income statements, and balance sheets. These will be the basis of analyzing the operational feasibility of the proposed coopera-

tive. Important components of this part of the financial analysis are esti-

and other supplies needed. The steering committee and adviser should determine what items should be included and their probable cost, based on operating assumptions.

The level of business activity will be critical in determining operating costs. In most businesses, per-unit operating costs tend to decline as the volume of business increases. If the operating income shows little or no margins over estimated costs, the committee should estimate what volume is needed for acceptable returns.

Income is usually generated through a cooperative's fee structure. A cooperative can employ a variety of techniques including flat annual fees, usage fees, rebates, and member assessments. The goal of a cooperative's fee structure is to generate income to cover operating costs and to acquire assets, but in a manner that is fair to all members. As the number and complexity of programs and services offered by the cooperative increase, so will the complexity of the fee structure.

Another source of income is product markups or margins. Cooperatives that act as a wholesaler usually use these as a source of income. They buy products from manufacturers or distributors and resell them to members. Cooperatives that use markups often have a minimum markup policy. When setting the price for members, the cooperative will add to its cost a minimum fee to cover operating costs, working capital, and a contribution to reserves.

Fees are usually set annually by the organization's board of directors. The board determines the cooperative's budget for the coming year. Based on the budget, the board determines what income is needed to cover operating costs and to provide working capital and prudent reserves. Members are then charged a fee based on the level of income necessary to meet projected program and service obligations.

Because the economic feasibility analysis looks into the future, it must be based on assumptions concerning the cooperative's operating costs, cash-flow, capital needs, operating procedures, etc. The results of the analysis (the cooperative is feasible or not feasible) are only as good as the assumptions used. Potential members must meet to discuss the study results and the assumptions used. If considered reasonable and

potential members vote to approve them, the assumptions will become the basis of the business plan.

## **Business Plan**

This will outline the structure and operations of the cooperative. A good, detailed plan is important because it will present a picture to potential members of how the cooperative will operate and what it will offer. The plan will also be needed when financial institutions are approached concerning credit lines and other financing. The business plan should cover:

1. Products and services to be provided.
2. Technical and operational plans.
3. Management of the cooperative.
4. Facilities.

Each topic is important and must be thoroughly covered if a sound business plan is to be developed. For example, the business plan must specify what services the cooperative will offer and/or what products the members can purchase through it. This decision will be based on the results of the potential member survey. Specific information concerning the technical and operational aspects of the cooperative is also important. This should include the general operating policies for personnel, finance, pricing, program development, etc., as well as activities such as accounting and buying. Related to this is what facilities and equipment are needed so that the cooperative can operate efficiently for its members. Finally, the role and responsibilities of the cooperative's manager and staff should be discussed.

Once the business plan is completed, potential members should review and evaluate the plan. They should be able to determine what the cooperative will look like, how it will operate, and what it will do. Next, they should discuss the business plan and decide whether or not to proceed.

## **Incorporation**

If the potential members approve the plan and vote to continue the process, the next step is to legally incorporate the cooperative.

### ***State Incorporation Statutes***

Most corporations, including cooperatives, are formed under a State law. State incorporation statutes grant specific powers (e.g., to market, purchase, manufacture, etc.) and general ones (all powers necessary to conduct business).

Every State has at least one statute that may be used to form a cooperative corporation. These statutes vary widely, in topics covered by each statute and in specific requirements for each topic. State business corporation law will apply to fill in the gaps in coverage if not in conflict with the cooperative incorporation statute.

Statutes usually describe the association formation process, including number of incorporators required, association name, capital structure, and how long the association may exist. Mandatory and discretionary provisions of the articles of incorporation and bylaws are described in some detail by most statutes. Statutes may also describe qualification for membership and documents of membership (e.g., stock certificates), and define the rights of membership.

No single feature of cooperative incorporation statutes sets them apart from other incorporation statutes more than the voting rights given to individual members. Effective democratic control by members is an essential characteristic of cooperative associations. Most cooperative incorporation statutes establish rules to assure such control. These rules relate to voting rights and voting methods. Most States limit the voting rights of individuals (or individual businesses) to one vote per member. However, some States allow voting rights based on the amount of business (patronage) conducted with the association. A few States place a limit on voting rights if based on patronage. For example, an individual may be limited to only five votes regardless of his/her patronage level.

### ***Legal Papers***

As part of the incorporation process and before a cooperative can begin to operate, several legal documents and contracts have to be drafted. Have an attorney draft the various documents. At a minimum, an attorney should review any documents drafted by others.

*Articles of Incorporation* describe the type and scope of the cooperative's activities and include principal place of business, purposes, powers, etc. Model articles of incorporation are found in Appendix B.

*Bylaws* describe how the cooperative will conduct business, and usually include membership requirements, membership rights and



responsibilities, how voting is conducted, etc. Bylaws establish formal lines of decisionmaking and authority as well as financial and managerial guidelines. Model bylaws are found in Appendix C.

**Membership Certificate** or common stock is a legal proof that a patron of a cooperative is a member. Each member is issued one when accepted as evidence of entitlement to all of the rights, benefits, and privileges of the association.

**Revolving Fund Certificates** (other names may be used) are the member's receipt for certain capital investments that will eventually be returned. In the meantime, these funds retained by the cooperative are used as capital.

A **Purchasing Agreement** includes a specific commitment by the member to buy a specified amount of products from the cooperative. If this is included, then the cooperative has a more solid foundation on which to make its business decisions.

### ***Process of Incorporation***

This gives the cooperative a legal identity. Therefore, once the group decides to proceed, the cooperative should be legally incorporated under the appropriate State law. Assistance should be sought from an attorney familiar with the incorporation process.

Prior to filing the articles of incorporation, the steering committee must approve them. The committee usually becomes the incorporators and does the filing, after making sure all requirements are met. Requirements include evidence of the minimum paid-in capital, evidence of a minimum payment on stock subscriptions if the corporation is to be a stock cooperative, and, in most States, signed acknowledgement of the articles by some or all of the committee members as incorporators.

The attorney files for the corporation charter. A fee to record the articles of incorporation must be paid when filed. The fee varies by State. Once chartered by the State, the cooperative usually has 30 days to adopt bylaws.

Additional tasks must be accomplished at the time of incorporation such as selecting the bank where the cooperative's appropriate accounts can be established and implementing appropriate accounting procedures to maintain accurate records of membership payments and organization expenses.

## **Adopt Bylaws and Elect Board of Directors**

Once incorporated, a charter membership meeting should be held to adopt bylaws and elect an initial board of directors. The steering committee members frequently become the board of directors, because they are familiar with all aspects of the new cooperative.

The board of directors is the democratically elected decisionmaking body of the cooperative. Cooperative boards vary in size, although most have between six and nine directors. Cooperatives usually require that all directors be members of the cooperative, although some State statutes allow cooperative boards to include nonmember directors.

The chief responsibilities of the board include safeguarding the cooperative's assets, distributing the benefits of the cooperative, planning the cooperative's future, hiring, directing, and appraising the cooperative's manager, and setting cooperative policies. The day-today responsibility for decisionmaking and operations, however, generally rests with hired management.

### ***Board Composition and Nature***

The nature and composition of the board is defined in the cooperative's bylaws. They describe director eligibility, method of selection, term of office, and board organization.

Directors meetings are usually held monthly or every other month. An agenda is developed for each meeting and minutes are kept. Directors may be compensated to cover their expenses for attending board meetings if approved by members and allowed by the bylaws.

Director selection methods may vary with a cooperative's size, structure, and function. Usually the bylaws describe how directors are selected. State statutes may also contain provisions related to director selection. Larger cooperatives may use a nominating committee of three to five directors to assist with the selection of board candidates. The selection of the nominating committee itself is determined by the bylaws.

Cooperatives have developed various systems to produce equitable representation of their membership. Many cooperatives elect directors "at-large"-the entire membership can vote directly to fill each board position and each director represents the entire membership. Some divide the cooperative's territory into geographic districts with nearly equal membership numbers. Directors are then elected by district. Others establish roughly equal territories based on volume of member business.

### ***Delegation and Guidance Structures***

Directors elect from among themselves a chairperson (or president), vice-chair (or vice president), secretary, and treasurer to serve as corporate officers and to help them conduct orderly meetings. The officers elected to the board have a variety of responsibilities:

- **President:** Calls and chairs meetings of the board and of the general membership, acts as official representative of and spokesperson for the cooperative, and personally reviews financial activities of the cooperative. The president usually cosigns checks and documents.
- **Vice-President:** *serves* in the absence of the president and assists the president.
- **Secretary:** Maintains written records—such as minutes, leases, corporate papers, and contracts — and handles all official communications. The secretary also takes and distributes the minutes of all meetings.
- **Treasurer:** Maintains or supervises the financial records of the cooperative. The treasurer usually cosigns checks and other legal documents.

Some cooperatives will also elect an executive committee which handles many routine director responsibilities. Other board committees may be formed to oversee important aspects of the cooperative such as finance or member relations.

The board must develop and approve policies for the cooperative. Directors should also review specific operating policies recommended by management. Written policies are important to a board because they reflect the philosophy of the cooperative and serve as guidelines for actions it takes to meet its goals.

Cooperative boards may establish advisory committees to seek counsel or special insight on specific issues or programs that may otherwise lie outside their range of expertise. Advisory committees are often established to examine a particular member need, important aspects of cooperative operations, program development, and program delivery. Directors may or may not sit on advisory committees. In either case, committees report directly to the board.

### **Implement Business Plan**

Once the board is elected, it meets and makes assignments for implementing the business plan. Officers of the board are elected and directors assigned to committees. Target dates should be established to help moti-

vate those responsible to accomplish their tasks on time. The following are the steps to implement the plan:

### ***Acquire Capital***

Sufficient capital must be raised before the cooperative can actually begin operating. The first step is to collect the initial capital investment from potential members. If this occurs earlier in the process, potential members will become more committed to the idea of a cooperative. (If the cooperative does not incorporate, this capital can be returned to the investors.) At the same time, the new board (with assistance from the adviser) must develop a loan application package for acquiring debt capital. This includes acquiring long-term debt to purchase capital assets such as a warehouse or equipment and obtaining a line of credit to finance short-term operating costs.

### ***Hire Manager***

The most important part of implementing the business plan is hiring the cooperative's general manager who plays a significant role. The manager is responsible for day-to-day operations. Manager candidates need to be judged in these areas: education, experience, ability to work with people, industry expertise, knowledge of business practices, and knowledge of the unique characteristics of cooperatives.

The general manager is given power by the board to employ, train, and discharge all other personnel. Managers are also responsible for directing daily business activities, carrying out the board's policies, setting goals and making short-range plans, keeping complete accounts and records, developing the annual operating budget, and providing the board with periodic reports.

Questions may arise regarding the division of responsibilities between the board and management. In general, the criteria for separating board and manager responsibilities are based on: the time period-long-run decisions (after 3 years) are the board's responsibilities, short-run decisions are handled by management; idea decisions are handled by the board and action decisions by management; and policy development is made by the board but implemented by the manager.

### ***Hire Employees, Acquire Facilities, and Begin Operations***

The manager hires other employees such as support staff, service providers, buyers and negotiators, and others as necessary within

staffing guidelines established by the board. The staff needs to be educated about what a cooperative is and how it operates. Staff members also should be competent in their assigned task and be flexible enough to assume multiple tasks as needed.

Acquiring facilities, equipment, and supplies is a task that takes time and much thought. If the cooperative must build a warehouse or other facilities, this is a more critical decision than if the cooperative only needs office space. The manager should act as an adviser in these types of decisions.

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## Summary

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The process of organizing and incorporating a shared-services cooperative is complex and time consuming. Potential members must perceive a real need and understand how a cooperative can meet that need.

Potential members must also be willing to commit the time and resources necessary to start a cooperative. At the same time, potential members of a shared-services cooperative should realize that the cooperative structure may not be the answer to their problems. That determination can be made by following the basic steps outlined in this manual.

These basic steps include conducting an exploratory meeting, selecting a steering committee, conducting an economic feasibility analysis, developing a comprehensive business plan, incorporating the cooperative, and implementing the business plan. Throughout this process, it is important to have an adviser who can assist potential members through each step of the organizing procedure.

The benefits derived from a shared-services cooperative are usually worth the time, effort, and financial resources required to organize and begin operating. The success of these cooperatives is dependent on the support of and usage by the membership. Only the potential members of the cooperative can determine its fate both during its organization and later during its operation.

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## Resources

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Information and technical advice on sharedservices cooperatives are available from these sources:

**National Cooperative Business Association (NCBA), 1401 New York Ave. NW; Washington, DC 20005; (202) 638-6222**

NCBA is the national membership and trade association representing America's cooperative business community. Among NCBA's membership are farm supply and marketing, housing, insurance, health care, consumer goods, credit unions, worker, fishery, rural electric, telephone, and other cooperatives, and State associations. NCBA supports the development and expansion of cooperative businesses, represents cooperative business interests before Congress, promotes international commerce, and represents American cooperatives to the world's cooperative business community.

**National Cooperative Bank (NCB), 1401 I St. NW, Suite 700; Washington, DC 20005; (202) 336-7700**

NCB has become the most important financial institution for America's housing, business, and consumer cooperatives. It is owned by member-borrowers and, through its NCB Development Corp. subsidiary and affiliates, such as NCB Savings Bank FSB, NCB Investment Advisers, and Cooperative Funding Corp., provides financial services and technical assistance to cooperative businesses.

Councils for cooperatives operate in 34 States. Their activities include providing educational, legislative, and technical assistance not only to newly formed cooperatives, but also to those already established.

USDA's Office of Rural Economic and Community Development (RECD) in Washington, D.C., consists of three agencies — Rural Utilities Service (telephone, electric, and water and sewer programs), Rural Community Development Service (housing and rural community loan programs), and Rural Business and Cooperative Development Service (RBCDS) business (including cooperatives) development programs. The cooperative aspect is carried in RBCDS's Cooperative Services Program which provides a wide array of publications about aspects of forming

**and operating cooperatives plus technical assistance to new and existing cooperatives.**

**The other rural business programs of RBCDS includes many loan and grant programs. These programs help provide financing to rural business owners, cooperatives, public bodies, and Indian tribes for business ventures which create quality jobs and stimulate the economy of rural areas. For further information or assistance contact: United States Department of Agriculture / Rural Business and Cooperative Development Service / Cooperative Services, Ag Box 3250, Washington, D.C. 20250-3250, Phone: (202) 720-7558.**

# Appendix A

## Sample Potential Membership Survey

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### Cooperative ABC

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#### Section A

Company \_\_\_\_\_

Address \_\_\_\_\_

Respondent's name \_\_\_\_\_

Position \_\_\_\_\_

Phone number \_\_\_\_\_

*Note: customize survey according to type of cooperative organized i.e., education, health, wholesaling, etc.*

#### Section B

1. Type of organization (check one of the following).

business type A     business type B     business type C

2. Which products or services does your organization purchase?

product A             product B             product C  
 product D             product E             product F

3. During the last 12 months, what was the frequency of purchase, the units used to purchase and the number of units. (note: example of frequency is weekly, monthly, quarterly, biannually, or annually. Unit of purchase is 1 00#, 100 pack carton, etc.)

<i>product/service</i>	<i>frequency</i>	<i>unit of purchase</i>	<i># of units</i>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____



4. What are your organization's minimum specifications for purchasing these products or services?

product/service	<u>(Product A)</u>	<u>(Product B)</u>
quality	_____	_____
packaging requirement	_____	_____
minimum volume per delivery	_____	_____
frequency of deliveries	_____	_____
purchased direct/or distributor	_____	_____
F.O.B. or C.I.F.	_____	_____

5. How long after delivery does your organization normally pay for purchases?

- prepay**
 **<10** days
  10-20 days
  **21-30 days**
 more than 30 days

6. Please rank the importance of the following factors in your organization's decision to purchase from a supplier? (use a scale of 1 to 9 with 1 being the most important)

- |                                     |                           |
|-------------------------------------|---------------------------|
| _____ quality                       | _____ price               |
| _____ dependability                 | _____ delivery schedule   |
| _____ packaging used                | _____ payment terms       |
| _____ quantity available            | _____ variety of products |
| _____ prompt resolution of disputes |                           |

7. Do you currently have contracts with suppliers?  yes  no

8. Do you conduct competitive bids prior to contracting?  yes  no

9. What price did you pay for last purchase and who was your supplier?

<i>product/ services</i>	<i>unit price</i>	<i># units purchased</i>	<i>supplier</i>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

10. Please rank the importance of the following factors in deciding whether to join Cooperative ABC? (use a scale of 1 to 5 with 1 being the most important)

- \_\_\_\_\_ lower price for same quality
- \_\_\_\_\_ better quality at same price
- \_\_\_\_\_ ability to one-stop shop
- \_\_\_\_\_ reliability
- \_\_\_\_\_ other ( please list)

# Appendix B

## Sample Articles of Incorporation for a Cooperative Corporation

We the undersigned, incorporators, hereby associate ourselves together to form and establish a cooperative not for profit under the laws of the State of \_\_\_\_\_

### ARTICLE I Name and Location

The name of this cooperative shall be \_\_\_\_\_  
and its location and principal office shall be in the city of \_\_\_\_\_  
\_\_\_\_\_ County, State of \_\_\_\_\_

### ARTICLE II Duration

The duration of this cooperative shall be perpetual.

### ARTICLE III Purpose

The purposes for which this cooperative is formed are:

A. To engage in any lawful mercantile, servicing, or manufacturing business including among other things the purchasing and selling of business supplies, services, and equipment which shall be supplied upon the cooperative plan.

B. To the fullest extent possible, to provide its members and others with an assured available supply at a reasonable cost of all such materials, supplies, equipment, products, and accessories.

C. To initiate, encourage, and support the research, design, development, and standardization relating to all kinds and types of materials, supplies, equipment, products, and accessories used by its members.

D. To do all such acts and things as may be useful, necessary, or convenient for the accomplishment of the purposes herein expressed, provided, however, that all of the operations of the cooperative shall be on a cooperative basis, not for profit, and for the primary use and benefit of its members.

The enumeration of the foregoing purposes shall not be held to limit or restrict in any manner the general powers of the cooperative, and the cooperative shall be authorized to exercise and enjoy all the powers, rights, and privileges granted to or conferred upon a cooperative of the character of this cooperative by the laws of the State of \_\_\_\_\_, now or hereafter in force.

ARTICLE IV  
Capital Stock

The capital stock of the cooperative shall be \_\_\_\_\_ dollars (\$\_\_\_\_\_) which shall be divided into stock of the following classes and amounts:

- (a) \_\_\_\_\_ shares of Common Stock of the par value of \_\_\_\_\_ dollars (\$\_\_\_\_\_) each, to be one class.
- (b) \_\_\_\_\_ shares of non-voting noncumulative Class A Preferred Stock with a par value of \_\_\_\_\_ dollars (\$\_\_\_\_\_ each); such Preferred Stock to be issued only in payment of patronage dividends and to bear a dividend rate of \_\_\_\_ percentage (\_\_\_%) per annum.
- (c) \_\_\_\_\_ shares of Class B Preferred Stock, with a par value of \_\_\_\_\_ dollars (\$\_\_\_\_\_) and to be non-voting. Such Preferred Stock shall be subordinate to Class A Preferred Stock as to entitlement to payment upon liquidation or dissolution, but the holders thereof shall be entitled to receive par value of their stock upon liquidation or dissolution of the cooperative prior to payment of Common Stock.

ARTICLE V  
Control of Stock Holdings

The Common Stock of the cooperative may be purchased, owned, or held only by businesses engaged in the business of \_\_\_\_\_

Each member of the cooperative may hold only one share of Common Stock. In the event the board of directors shall determine that Common Stock is held by any organization not eligible for membership, the cooperative shall have the right, at its option, to purchase such stock at its book or par value, whichever is greater.

Common Stock shall not be transferable and no dividend shall be paid thereon.

The Class A Preferred Stock of the cooperative may be issued to and held by any patron of the cooperative. It shall carry no voting rights.

Class A Preferred Stock may be transferred only on the books of the cooperative and may be redeemed in whole or in part on a pro rata basis or book value, whichever is less, plus any dividends thereon unpaid, at any time on thirty days' notice by the cooperative, provided said stock is redeemed in the same order as originally issued by years.

Class B Preferred Stock may be transferred only on the books of the cooperative and may be redeemed at any time at the par or book value, whichever is less.

The cooperative shall have a lien on all its issued Common Stock and Preferred Stock for all indebtedness of the holders thereof the cooperative.

#### ARTICLE VI

##### Class of Members and Voting Rights

There shall be one class of members in the cooperative. Only organizations and entities meeting the qualifications for stock ownership specified in Article V and which are patrons shall be eligible to become and remain members of the cooperative. Any such eligible organization, upon purchasing a share of Common Stock in the cooperative, shall become and be deemed to be a member of the cooperative. Owners and holders of Class A and Class B Preferred Stock shall not, by virtue of such ownership of such stock, have any voting rights in the cooperative. Voting rights shall be vested only in members owning and holding Common Stock and such voting rights shall be exercised as provided for in the bylaws of the cooperative.

#### ARTICLE VII

##### Directors

The business and affairs of the cooperative shall be managed by the board of directors. The number of and qualifications for directors shall be specified in the bylaws. The bylaws may provide that directors be from

specified territorial districts and may further limit voting for the election of any directors to members from within the territorial district which such director represents. The number of directors shall not be less than five.

**ARTICLE VIII**  
Officers

The principal officers of the cooperative shall be chairman, vice chairman, secretary, and treasurer. The board of directors may appoint or may authorize the appointment of other officers from time to time.

**ARTICLE IX**  
Incorporators

The name and place of residence (post office address) of each of the incorporators and initial directors until the first annual meeting:

**Incorporators:**

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**Directors:**

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**ARTICLE X**  
**Liquidation or Dissolution**

Upon liquidation or dissolution of the cooperative, after payment of all debts and liabilities, the holders of Class A Preferred Stock shall be entitled to receive par value of their stock plus any dividend unpaid. The holders of Class B Preferred Stock shall be entitled to receive par value of their stock, and then the holders of Common Stock shall then be entitled to receive the par value of their stock. Any sum remaining shall be distributed to patrons on the basis of their patronage for the immediate past five years.

# Appendix C

## Sample Bylaws of a Cooperative Corporation

### **ARTICLE I** **Articles of Incorporation**

The provisions of the articles of incorporation of this cooperative are hereby made a part of these bylaws.

### **ARTICLE II** **Office**

The principal place of business of the cooperative in the State of \_\_\_\_\_ shall be located at \_\_\_\_\_  
County of \_\_\_\_\_

### **ARTICLE III** **Fiscal Year**

The fiscal year of this cooperative shall be established from \_\_\_\_\_ to \_\_\_\_\_

### **ARTICLE IV** **Annual Meetings**

(A) The annual meeting of the cooperative shall be held at the principal place of business of the cooperative or at any other convenient location within the area served at such time as the board of directors shall determine, which meeting shall be held within six (6) months after the close of the fiscal year at the call of the president or board.

(B) Special member meetings may be called by the president, board, or members having one-fifth of the votes entitled to be cast at such meeting.

(C) Notice of all meetings shall be given to all members by mail at their last known address at least seven (7) days, and not more than thirty (30) days prior to the date of the meeting.

### **ARTICLE V** **Quorum**

A quorum at a member meeting shall be \_\_\_\_ percent (\_\_\_ %) of the



members. If a quorum is not present at any meeting of members, a majority of the members present may adjourn the meeting from time to time without further notice.

**ARTICLE VI**  
**Number of Directors and Terms**

(A) The initial board of directors shall consist of \_\_\_\_\_ ( \_ ) persons to be selected by the incorporators of the cooperative. All directors shall be members or representatives of members of the cooperative. The initial board of directors shall serve until the first regular members meeting following the end of the cooperative's first fiscal year.

(B) The board of directors shall consist of \_\_\_\_\_ ( \_ ) members who shall be members or representatives of members of the cooperative. The terms of the directors shall be three (3) years. At the first meeting of the members, \_\_\_\_\_ ( \_ ) directors shall be elected. Following this election, the directors shall draw lots to determine which directors shall serve for terms of one (1) year, for two (2) years, or for three (3) years. Thereafter, as nearly as possible, the terms shall be so arranged that an equal number of directors is elected each year. Vacancies on the Board shall be filled by the remaining directors until the next annual meeting. Directors shall hold office for the terms for which elected or until their successors are elected and qualified.

(C) Directors must be members or representatives of members of the cooperative. Should a director cease to be a member or representative of a member of the cooperative as provided in the articles of incorporation, his or her office shall automatically become vacant.

(D) Any director of the cooperative may, for cause, at any annual or special meeting called for the purpose, at which a quorum of the members are present, be removed from office by vote of the majority of the members present. Upon failure of a director to attend three consecutive regular meetings of the board, his or her term of office shall be automatically terminated and the vacancy shall be filled as provided herein. Upon failure of a director to attend a majority of the regular meetings of the board of directors held during the year, his or her term shall automatically expire at the annual meeting, and the vacancy shall be filled by election

as provided herein. No director shall be removed from office at either an annual or special meeting unless he or she shall be informed of the meeting at which the matter is to be considered at least ten (10) days before such meeting. Such notice shall be by registered mail addressed to him or her at this last known address, and he or she shall be entitled to be heard at such meeting, except a director may be removed at an annual meeting for failure to attend the required number of board meetings without notice. In case of such removal, the members shall fill the vacancy for the unexpired terms of such directors, and such election may be held at the same meeting at which the director was removed from office.

ARTICLE VII  
Meetings

(A) Regular meetings of the board of directors shall be held at such time and place as the board of directors, by proper resolution duly adopted and recorded upon the minutes, shall from time to time determine. Special meetings of the board of directors may be called by the president, manager, or by a majority of said board. No business except that mentioned in call for special meeting of the Board of directors shall receive final action at said meeting. A majority of the directors shall constitute a quorum at all meetings of the board and a majority vote of the members present shall decide all questions.

(B) Three days' notice of directors' meetings shall be given, unless waived in writing by all directors, or all directors consent by attending a meeting. Compensation, if any, of the directors shall be determined by the members at the annual meeting, or at any special meeting.

ARTICLE VIII  
Officers Election

At the first meeting following the annual meeting of members, the board of directors shall elect a president and vice president from among their members. They shall elect a secretary and treasurer, who need not be a member of the board, or may, in their discretion, combine the office of secretary and treasurer. All such officers shall hold office for a term of one year, or until their successors have been elected and qualified. Such

officers may be removed by the board and successors elected at any board meeting.

**ARTICLE IX**  
Duties of Officers

The officers shall perform such duties as are ordinarily assigned to such officers in the normal course of business. The president and secretary shall have authority to sign all documents within the scope of the implied or express authorization of the board of directors, the cooperative law, and the articles of incorporation and bylaws of this cooperative. The secretary and treasurer shall perform the usual duties of those offices. The vice president shall act as president in the absence or disability of the president. The manager, at the discretion of the board, may be elected as an officer, but not as a member of the board.

**ARTICLE X**  
Conduct of Business: Manager

The board of directors shall have general jurisdiction over business affairs of the cooperative and make all necessary rules and regulations not inconsistent with law, the articles, and these bylaws. They may employ a manager, determine his or her duties, and fix his or her compensation. The manager and other employees handling funds of the cooperative shall be covered by bond for the faithful performance of their duties, in such amounts as is required by the board. Books of account of the cooperative shall be reviewed and reported on at least once each year by certified public accountants selected by the board. Regular reports of the affairs of the cooperative shall be made to the board as required by board policy.

**ARTICLE XI**  
Indemnification Bylaw

Each director, officer, employee or agent of the cooperative now or hereafter serving as such, shall be indemnified by the cooperative against any and all claims and liabilities including reasonable settlements to which he or she has or shall become subject by reason of serving or having served in such capacity, or by reason of any action alleged to have been taken,

omitted, or neglected by him or her as such Director, officer, employee or agent; and the cooperative shall reimburse each such person for all legal expenses reasonably incurred by him or her in connection with any such claim or liability, provided, however, that no such person shall be indemnified against, or be reimbursed for any expense incurred in connection with, any claim or liability arising out of his or her own willful misconduct or gross negligence.

Any questions as to the above rights and responsibilities shall be finally resolved by directors not a party to the claim, the shareholders, or an opinion by independent counsel.

A corporation shall have power to purchase insurance covering such liability and expense, whether or not it could have power to indemnify such director, officer, employee, or agent under law, contract, or by this by-law. It is intended reasonable advances may be made on such indemnity, and that the burden of proof of lack of entitlement be on any objector. If any part of these provisions shall be held ineffective, this shall not affect the balance, and in no case shall indemnification be less than provided or permitted to the full extent of the law.

## ARTICLE XII Membership

All members of the cooperative shall be business organizations doing business as \_\_\_\_\_ as that term is generally understood. All members shall have one vote.

As provided in the articles of incorporation, there shall be one class of membership.

Each member shall designate a person to act on the member's behalf in conducting the affairs of this cooperative. In the event a member withdraws such designation from a person serving as an officer or director of the cooperative, the office held by that person shall be deemed vacant and the vacancy will be filled as provided in these bylaws. In the event a member cannot agree on the identity of a designated representative, the right of that member to participate in the affairs of the cooperative shall be suspended until a properly designated representative can be selected.

**ARTICLE XIII**  
Membership Fees

All members shall pay an annual membership fee. All members shall pay the same fee. The amount and manner of payment of the membership fee shall be established from time to time by the board of directors.

**ARTICLE XIV**  
Allocation and Reserves

(A) All sums received for goods or services procured by members, and all sums received for services performed by members, and all sums received as patronage refunds from other cooperatives, and any and all sums received from any other source whatsoever shall be deemed to be gross receipts and shall be received and held by the cooperative for and as the property of its members, subject to the deductions therefrom and distribution thereof hereinafter provided.

(B) The cooperative shall deduct:

(1) The actual cost of operations, distribution and other services procured by members.

(2) The actual cost of services performed by members.

(3) All other necessary expenses.

(4) Reasonable amounts for valuation reserves such as reserves for depreciation of physical property, doubtful accounts, etc.

(5) Employee deferred compensation payments and contributions to employee pension or profit-sharing plans, if any.

The balance-of said gross receipts remaining after said deductions, calculated upon a fiscal year basis, shall be deemed to be annual savings (net proceeds) which is not distributable as a patronage refund, shall be used to pay dividends on preferred stock, if any, declared by the board of directors. The balance of said non-distributable annual savings (net proceeds), if any, shall be added to the capital reserve. If the portion of the

annual savings (net proceeds) which is not distributable as a patronage refund is insufficient to pay dividends, if any on preferred stock, such deficiency shall be made up out of the annual savings (net proceeds) which would otherwise be distributable as patronage refund.

(C) The board of directors may set aside such part of the annual savings (net proceeds) not exceeding \_\_\_\_\_ percent ( \_ %) as it may deem advisable for the purpose of creating a capital reserve (surplus), but only to the extent that the non-distributable savings, after the payment of dividends, shall be less than \_\_\_\_\_ percent ( \_ %) of the aggregate annual savings (net proceeds). Whenever the capital reserve shall equal \_\_\_\_\_ percent ( \_ %) of the paid up capital, the board of directors shall not set aside any of the distributable savings (net proceeds) in the capital reserve.

(D) The board of directors may set aside a sum not to exceed five percent (5%) of the annual savings (net proceeds) as an educational fund which shall be used for the purpose of promoting and encouraging cooperative organizations.

(E) The board of directors may grant a bonus to employees who are in the employ of the cooperative at the time of apportionment of proceeds, which bonus shall be based in amount upon the amount of compensation received by said employees during the year, at a rate not to exceed the rate of patronage distribution to members, which bonus may be paid either in cash or in the capital stock of the cooperative.

(F) All of the annual savings (net proceeds) then available for distribution and not distributed as dividends on stock, shall belong to and be held for the members of the cooperative, and shall be distributed annually to said members as a patronage refund on the basis of their respective patronage as hereinafter provided. There shall be no distinction between persons entitled to the remaining net proceeds.

ARTICLE XV  
Membership Acceptance/Fee

The board of directors shall review and approve or disapprove all membership applications. The decision of the board shall be final. The mem-

bership acceptance fee shall be set each year by the board of directors at this first meeting following the annual membership meeting. The membership acceptance fee shall be in addition to any annual membership fee the board may establish at that same first meeting following the annual membership meeting.

#### ARTICLE XVI

##### Enactment, Amendment, and Repeal of Bylaws

Bylaws may be enacted, amended, or repealed at any meeting of the cooperative by a vote of three-fourths majority of the members voting, unless otherwise provided by law. Any and all proposed changes of the bylaws shall be included in the notice of the cooperative meeting given to all members by mail.

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**U.S. Department of Agriculture**  
**Rural Business and Cooperative Development Service**

Ag Box 3255  
Washington, D.C. 20250-3255

Rural Business and Cooperative Development Service (RBCDS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The cooperative segment of RBCDS (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. RBCDS also publishes research and educational materials and issues *Farmer Cooperatives* magazine.

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