



# Executive Summary

California Cooperatives:

Today's Landscape of Worker, Housing and Childcare Cooperatives

## EXECUTIVE SUMMARY

**California, like the rest of the United States,** is in the midst of multiple crises, where increasing inequality and racial inequity are exacerbated by the COVID-19 pandemic and its economic and social impacts. After years of struggling with the high price of housing, a bifurcated job market that leaves many shut out of decent employment, and insufficient support for struggling parents, many Californians are facing deep uncertainty. Some families are behind on rent and facing possible eviction; others want to return to work but cannot find childcare. Although employers are hiring, wages remain low in service sectors, and health risks persist. Federal assistance has helped but the road ahead continues to be challenging.

**In this report, we offer a path to address these crises, one grounded in a time-tested solution: cooperatives.**

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Cooperatives have a rich history, in California and around the world, as a form of enterprise that helps people come together to meet their social and economic needs. Coop members address shared needs, and often societal injustices, by co-owning, democratically governing, and sharing equally in profits and other benefits of cooperative enterprises. Self-reliance is a central value that is baked into cooperative structures.

**Around the country,** and across diverse regions of our state, cooperatives play a vital role in many sectors of the economy. Farmers and artisans form producer cooperatives so that they can market their products directly rather than through a broker. Worker cooperatives create high-quality jobs, along with products and services valued by the communities they serve. Consumer cooperatives provide their members with affordable, quality housing, childcare, locally sourced healthy food, and financial services (through credit unions).



In this report, we provide an in-depth look at the cooperative landscape in California, focusing on three types of cooperatives that are particularly well situated to help solve the biggest crises facing our communities: quality jobs, housing, and childcare. In each section, we review the current landscape of cooperatives in that sector and the ecosystems that support them; we also provide examples and in-depth profiles of successful coops, assess barriers to growth, and make recommendations to grow the cooperative economy. Additional features of the report include a review of the statutes that guide the formation and operation of cooperatives, up-to-date lists of California cooperatives in each sector, and annotated bibliographies.<sup>1</sup> The report begins with an introductory chapter that presents an overview of the history and principles that have shaped cooperatives, the national organizations that support them, and policy opportunities to help cooperatives flourish. Following is a summary of each of the report's main sections and our recommendations.

## Worker Cooperatives

In 2020, the already widening income and wealth gap became a chasm, as COVID-19 ravaged many sectors of the California economy. California has the highest functional poverty rate in the nation, with one in three Californians living in or near poverty. One-third of the state's labor force consists of essential workers with low-paying jobs that are only expected to grow more prevalent over the next decade (Bohn et al., 2021). These trends coexist with another lesser-known phenomenon: the "Silver Tsunami." Ten thousand baby boomers are turning 75 each day, and boomers own nearly 360,000 California businesses, employing almost 4 million residents (Project Equity, 2021). Without intervention, many of these businesses will simply shut down or be sold off to strategic buyers and competitors who are likely to close or relocate them, taking the jobs with them.

In this context, worker cooperatives—businesses owned and democratically governed by the people who work there—offer an opportunity to preserve local businesses and improve the quality of jobs for California's workers, particularly workers of color, women, and others marginalized by the mainstream economy. Numerous studies have demonstrated that worker ownership increases workers' incomes and financial security, enhances productivity, and strengthens overall business stability. These benefits are prompting grantmakers, local legislators, investors, and community groups across California to seriously consider this approach to economic security.

<sup>1</sup>To keep the integrated report to a reasonable length, we have not included the annotated bibliographies. Rather, bibliographies for worker, housing and childcare coops are available in the separate, sector-specific versions of this report.

## Impact of Worker Cooperatives

### For workers:

- Above market pay and benefits
- Greater control over working conditions
- Voice in decision making
- Asset building through sharing of net profits
- Greater sense of well-being, dignity

*In a 2017 national study of worker cooperatives, workers reported earning an average of \$2 more per hour in their coops than at their previous jobs. In addition, three quarters of respondents said that benefits at their coop job met their family's needs as well (25%) or better (50%) than the benefits at their previous job (Schlachter, 2017).*

### For businesses:

- Enhanced growth and productivity
- Reduced employee turnover
- Greater business resiliency with longer survival rates

*A 2013 survey of worker cooperatives found that worker coops across all industries had an average profit margin that was almost 8.5% higher than the average for private firms (6.4% vs. 5.9%) (DAWI, 2014).*



Approximately 100 worker cooperatives are scattered throughout California, with the highest density in the San Francisco Bay Area. Some of these businesses started as cooperatives, while others transitioned to worker ownership when the owner decided to sell. These businesses are supported by an active community of coop developers and networks, and a small but growing group of funders, service providers, and advocates.

Significantly increasing the number, size and impact of worker cooperatives in California is not a simple endeavor, but the challenges are eminently solvable with sufficient resources and attention. The challenges include low awareness of this business form, insufficient support for growth-oriented cooperative developers who can guide coop startups or transitioning businesses, and financing and regulatory barriers. Our recommendations address these barriers to growth, proposing to raise awareness of the viability of worker ownership among retiring business owners and the traditional business services community, increase the capacity of cooperative developers, adapt policy and regulatory reforms, and deepen engagement with state and local governments.

## Recommendations to Expand Worker Cooperatives in California

1) Raise awareness about worker cooperatives among business owners, government agencies, and the business services provider community.

- Conduct awareness campaigns about worker cooperatives and other forms of broad-based employee ownership, with priority focus on retiring business owners.
- Dispel myths about worker cooperatives among community, business, and economic development professionals who often discourage cooperative ownership because of misconceptions or lack of familiarity.
- Educate nonprofit technical assistance providers, Small Business Development Centers (SBDCs), Workforce Development Boards (WDBs), and other organizations and advisors who provide services to businesses.

2) Prioritize scalable and/or strategic coop development.

- Leverage worker cooperative transitions to prevent business closures and wealth consolidation due to the twin crises of the Silver Tsunami and the COVID-19 pandemic; prioritize outreach to companies with owners age 55 or older and 20-200 employees.

### *Impact of worker coops continued*

#### **For communities:**

- Businesses that are rooted in the local economy
- More sustainable and innovative business practices
- Improved community economic development outcomes
- Greater civic engagement among workers
- More attention to race and gender equity

*Many California worker cooperatives and coop developers are actively engaged in community development. Mandela Grocery Cooperative (MGC), for example, supports its West Oakland community first and foremost by sourcing and selling healthy food in what was previously a food desert. Well beyond the store's front door, however, MGC conducts nutrition education programs, buys from Black farmers and other local businesses, and is supporting the launch of a sister grocery cooperative in East Oakland.*

- Ensure high-quality technical assistance for worker coop startups and transitions and build capacity for strategic coop development by helping experienced California-based cooperative developers expand their programs and by training new coop developers in proven practices to create stable cooperative businesses and quality jobs.
- Prioritize strategies that have shown measurable economic impact in communities of color and among low- and moderate-income workers, such as high- and medium-touch development models and creating multiple cooperatives in the same industry.
- Support and learn from innovations that have the potential to scale such as staffing cooperatives, mergers & acquisitions with cooperative ownership, and others.

3) Engage state and local governments to support worker cooperatives and other forms of broad-based employee ownership through relevant state programs and public policies that accelerate growth.

- Implement business retention strategies that encourage broad-based employee ownership, building on efforts in Berkeley, Long Beach, San Francisco, Los Angeles (city and county), and Santa Clara.
- Support statewide engagement of SBDCs with cooperative developers to implement the Main Street Employee Ownership Act of 2018.
- Embed worker cooperatives and other forms of broad-based employee ownership into state agency programs for small businesses and workforce development.
- Improve regulatory frameworks for worker coops in relation to securities, employment law, workers compensation, and lending; encourage lenders to use proven forms of underwriting that do not require personal guarantees.

## Housing Cooperatives

California is in the midst of a long, protracted housing crisis, brought on by the coupling of a severe housing shortage and a dearth of strategies to maintain affordability. California has the distinction of having the highest level of cost-burdened households in the country, with four



in ten homeowners and renters, at all income levels, cost-burdened (defined as 30% or more of their income is spent on housing). Because of the high price of homes, the state has the second lowest rate of home ownership in the country, and the second highest rate of homelessness. In our discussion of housing cooperatives, we argue that the limited equity housing cooperative (LEHC) model offers a proven strategy for increasing access to affordable, stable housing.



An LEHC is a housing development organized as a nonprofit corporation that is cooperatively owned and democratically governed by the resident members. Each household owns a share in the corporation, which entitles household members to cooperative membership, voting rights, and an occupancy right to a particular unit, which could be an apartment, townhouse, mobile home, or even a single-family residence. The LEHC model offers high quality, reasonably priced homes for households that are priced out of traditional single-family homeownership. In California the LEHC maintains affordability in perpetuity through a mandated cap on

appreciation when shares are sold from one member to the next. It also prevents speculation by directing that any sale, or profits from a sale, of the entire development go to a nonprofit and not members.

**Cooperative models** have a long track record of success and offer key benefits of homeownership, such as stability, control, and equity, along with built-in protections from financial risks to individual households. Cooperatives provide housing options for seniors, students, and workers, and can offer a local housing alternative for those who must commute for hours because housing is too expensive in the communities where they are employed. Among the successful California LEHCs is San Jerardo Cooperative, a 40-year-old housing community in the Salinas Valley (see Housing Cooperative Profile).

**Despite a rich history** and strong evidence of success in providing stable affordable housing, LEHCs are underutilized as a housing solution. Affordable housing developers show little interest, in part because they are unfamiliar with housing cooperatives but also because they cannot use the typical tax credit financing with which they are familiar. In our recommendations, we propose integrating LEHCs into California's affordable housing strategies at the highest levels. To do so, we will need to raise awareness among policymakers and developers, increase technical assistance for residents, ensure LEHCs receive access to affordable housing financing, and reduce legal and regulatory barriers.

## Impact of Limited Equity Housing Cooperatives

LEHCs open the door of ownership for households locked out of the traditional homeownership market and bring a host of benefits, including:

- Self-sustainable, democratically controlled communities
- Affordable and secure housing
- Reduced housing costs that create opportunities for savings, improved lifestyle, and increased economic confidence
- Opportunity to build equity (even though limited)
- Improved economic stability, health, and well-being

Studies show that LEHC members' monthly housing costs (their portion of debt service and LEHC operating costs) is significantly less than comparable rental or mortgage payments, especially when replacement and maintenance costs are factored in (Tempkin et al., 2010; Thompson, 2018).

## Recommendations to Expand Housing Cooperatives in California

1. Increase visibility through education and technical assistance to broaden knowledge and understanding.
  - Educate policymakers, financial institutions, and affordable housing developers about LEHCs, including financing mechanisms.
  - Provide LEHC purchase preferences for surplus property and include technical assistance for residents to form and finance LEHC development.
  - Require (and finance) annual governance education as part of the operating budget of LEHCs.
2. Expand LEHC development and innovations.
  - Incorporate the LEHC model into the state's strategy to expand reasonably priced homeownership opportunities and to solve workforce housing shortages.
  - Identify LEHCs as eligible for all affordable housing and home ownership funding programs.
  - Recognize the role LEHCs play in providing affordable units in integrated housing development.
  - Promote housing justice by encouraging innovative models that include LEHC components.
3. Reform legal and regulatory frameworks.
  - Address the myriad of regulatory conflicts that stymie LEHC development and seek long-term remedies, such as distinguishing cooperatives from other "common interest" developments.
  - Develop opportunity-to-purchase initiatives for tenants in rental properties and manufactured home parks.
  - Adopt statutes that foster the conversion of manufactured home parks to resident cooperatives to preserve naturally occurring affordable housing.
  - Allow LEHCs to qualify for welfare tax exemptions when they have households that qualify for housing subsidies.

### *Impact of LEHCs continued*

This affordability promotes economic stability as well as non-economic benefits for residents like improved physical health, better educational performance, increased racial and economic integration, and greater personal and family security (Lawton, 2014).

#### **Benefits to local, state and federal government:**

- Reduced public expenditures with better long-term outcomes
- Ability to preserve naturally occurring affordable housing
- Enduring affordable ownership strategy

LEHCs are a highly effective use of public funds, offering greater stability over time. A study of LEHCs in the District of Columbia, which often included public funding for development and to assist qualifying low-income residents, revealed that nearly 80% of the operating LEHCs that were more than 25 years old were in stable or excellent condition (Figueroa et al., 2004).

#### **Community and social benefits:**

- Reduced housing costs
- Safer communities
- Greater civic participation
- Improved social outcomes

LEHCs have been proven effective both in addressing barriers to traditional home ownership and in generating larger social benefits. A study in Humboldt County that compared outcomes from three affordable housing types (cooperative, traditional rental, and "voucher" housing units) revealed that the cooperative model had the most positive results on all social indicators measured: crime, community involvement, social-emotional support, and overall satisfaction (Mushrush, et al., 1997).

## Childcare Cooperatives

California's childcare crisis is fueled by shortages of licensed care, high costs, and unequal access. That reality became even more stark with the COVID-19 pandemic, which led millions of women to abandon the workplace in order to care for children when childcare facilities and schools closed.

Even before the pandemic, California families struggled to find adequate solutions, especially for infants and toddlers. Licensed childcare spaces are available for only 24.5% of these children (KidsData, 2019). And costs are astronomical: nearly 30% of the median household income for a married couple with two children. For a couple or single parent living at the poverty line, average childcare costs are near or above their annual income (ChildCare Aware, 2020). A severe shortage of childcare assistance leaves families largely on their own in tackling affordability challenges. State and federal subsidies only serve about 13% of low-income parents who are eligible for assistance (Schumacher, 2017 and Ullrich et al., 2019).

The crisis is dual-sided because the poor pay of childcare workers makes it difficult for people who enjoy and excel at caretaking to remain in the field. The pay causes hardship for workers and contributes to high turnover, which can erode the quality of care for children.

To rebuild the economy and to address the enduring childcare crisis, California needs a robust childcare system that is flexible, affordable, and staffed by well-paid professionals. Cooperative models, we argue, should be integrated into the state's strategic planning for childcare in order to expand options for parents, while also improving working conditions for childcare workers.

Childcare cooperatives take multiple forms, including parent cooperatives, worker cooperatives, and hybrid models. The parent model has a long history of providing licensed, center-based childcare and preschool services for parent-members. The cooperative is organized as a charitable nonprofit and led by a parent-elected board of directors. Over 225 such cooperatives operate in California. Childcare worker cooperatives, by contrast, are rare. This is likely, in part, because they do not qualify for tax-exempt status, making it more difficult to sustain a viable business.

### Impact of Childcare Cooperatives

- Expanded childcare options for parents
- Better pay and benefits for workers
- Realistic options for employers to support onsite/near-site childcare for employees
- Greater parent involvement, which is good for children and families
- Improved working conditions and stability for family childcare providers

*The Children's Center of the Stanford Community* was founded by graduate students in 1969 and today operates as a parent-teacher cooperative. It serves the staff, faculty and students of Stanford University by providing full-time care for children from eight weeks through five years old. The cooperative operates with a board of nine parents, five staff members, and a university representative.

*The Family Child Care Coalition (FC3)* of greater Philadelphia created a network of home-based providers to support professional development, advocacy, and purchasing power through negotiated discounts. Members also support one another with back-up arrangements when a home provider is ill or on vacation. FC3 is a member-governed nonprofit with a training subsidiary structured as a cooperative. The cooperative operates as a member-governed 501(c)3 nonprofit.



**For center-based care,** we recommend a multi-stakeholder form that combines the parent and worker cooperative models. Though parent cooperatives tend to pay above average wages and experience lower staff turnover than other childcare centers, developing coops where workers are also members will strengthen the model. A multi-stakeholder model, where up to 49% of the board are workers, can qualify for tax-exempt status and allow parents and workers to lead the cooperative together. This model would be effective in expanding licensed childcare while giving workers a direct voice in improving their pay and working conditions.

**Another important source of childcare** is provided by licensed family childcare home providers. These providers are often isolated and overworked, with inadequate income. When family providers bring their independent businesses together under one cooperative umbrella, they continue to operate independently and gain opportunities for mutual support, such as back-up care when a member is ill or goes on vacation. Additionally, the cooperative creates economies of scale through bulk purchasing, shared marketing, and administrative support, helping to increase each provider's income.

**We recommend supporting the development** of home childcare provider cooperatives alongside multi-stakeholder cooperative childcare centers and preschools.

## Recommendations to Expand Childcare Cooperatives in California

1. Support the growth of childcare cooperatives to expand licensed childcare availability and affordability, and improve pay and working conditions for workers.
  - Encourage the development of multi-stakeholder cooperatives with workers and parents as members.
  - Encourage the development of cooperatives among family childcare home providers.
2. Involve employers in expanding childcare choices.
  - Educate employers about cooperative childcare as a strategy to improve employee recruitment and retention, and to reduce worker absenteeism.
  - Use public and private funding sources to encourage employers to use nonprofit cooperative models of care.
3. Broaden education and technical assistance to enhance knowledge and understanding of childcare cooperatives.
  - Implement programs to educate policymakers, employers, parents, and childcare workers.
  - Provide technical assistance to promote the growth of new cooperatives and provide governance support for effective operations.
  - Engage childcare Resource and Referral Agencies in supporting childcare cooperatives.

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