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Equity Redemption Practices of Nebraska Farmer Cooperatives

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Market Report	Yr Ago	4 Wks Ago	11/25/11
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$100.71	$121.79	$126.21
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	130.13	155.74	160.70
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	116.42	145.00	141.08
Choice Boxed Beef, 600-750 lb. Carcass	161.01	186.97	196.64
Western Corn Belt Base Hog Price Carcass, Negotiated	64.61	86.21	82.40
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.	78.71	*	89.66
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct	154.75	168.50	164.50
National Carcass Lamb Cutout, FOB	352.10	406.73	409.86
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	5.66	6.43	5.86
Corn, No. 2, Yellow Omaha, bu.	5.27	6.43	5.96
Soybeans, No. 1, Yellow Omaha, bu.	12.09	11.88	10.99
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	8.52	10.98	9.95
Oats, No. 2, Heavy Minneapolis, MN , bu.	3.44	3.52	3.20
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	140.00	190.00	155.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	72.50	132.50	132.50
Grass Hay, Large Rounds, Good Nebraska, ton.	*	92.50	95.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.	161.50	222.50	232.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	54.00	74.50	74.25
***No Market**			

The ability of a cooperative to redeem the equities of members and former members depends on its particular business and financial characteristics. However, data on the equity redemption practices of other cooperatives can provide useful benchmarks for assessing a cooperative's equity redemption performance. A recent U.S. Department of Agriculture (USDA) report based on a 2008 survey of 792 farmer, rancher, and fishery cooperatives[1] offers valuable information about the equity redemption practices of cooperatives according to organizational form, major business activity, asset size, and geographic location. In particular, the report contains some information specific to Nebraska cooperatives.

In 2008, there were 38 marketing cooperatives and 29 farm supply or service cooperatives headquartered in Nebraska. Thirty-one of the marketing cooperatives were classified as grain and oilseed cooperatives based on their major business activity. Farm supply cooperatives headquartered in the state sold petroleum products and lubricants, bioenergy fuels, fertilizer, crop protectants, feed, seed, and other supplies.2 Participants in the USDA survey consisted of 765 local cooperatives and 27 regional cooperatives. Local cooperatives are characterized by membership and sales in one or two states. The sales of regional cooperatives typically are regional or national in scope. In addition, the membership of regional cooperatives may include local cooperatives. Thirty of the cooperatives included in the survey were local cooperatives located in Nebraska.

Eighty-three percent of the Nebraska cooperatives reported redeeming equity in 2008, compared to 73 percent of all local cooperatives that participated in the survey. The proportion of Nebraska cooperatives that redeemed equity exceeded the proportion for all cooperatives (both local and regional) that marketed grain and oil seed (81 percent) or sold farm supplies (76 percent). The proportion of local cooperatives that redeemed equity was greater for neighboring Iowa (84 percent) and Kansas (87 percent) but less for South Dakota (56 percent).

Cooperatives use a variety of equity redemption plans. These include three systematic plans – the revolving fund, percentage-of-all-equities, and base capital plans. In a revolving fund (or first-in/first-out) plan, equities are redeemed in the order they are allocated. With a percentage-of-all-equities plan, the cooperative determines each year the percentage of equity to be redeemed. Each member receives redemption of the same percentage regardless of when the equities were allocated. Under a base capital plan, each patron's equity requirement is readjusted annually according to the cooperative's capital needs and the patron's use of the cooperative. Cooperatives also may redeem equities held by patron estates or according to a patron's age, often together or in conjunction with a systematic plan.

The revolving fund plan was the most popular among survey respondents. Forty-four percent of local cooperatives reported using a revolving fund plan, 11 percent used a percentage-of-all-equities plan, and 4 percent used a base capital plan. Forty-three percent reported redeeming equities held by patron estates, and 27 percent redeemed equities on the basis of patron age. Only 40 percent of Nebraska cooperatives used a systematic equity redemption plan – 30 percent used a revolving fund plan, and 10 percent used a percentage-of-all-equities plan. On the other hand, 67 percent of Nebraska cooperatives redeemed estates, and 60 percent redeemed equities on the basis of age. An advantage of the revolving fund and other systematic plans is that the financial requirements of those plans can be determined and taken into account in the cooperative's financial budgeting process.

One indicator of the performance of a revolving fund plan is the length of the revolving period – the time it takes the cooperative to redeem an equity allocation after it is made. A short revolving period suggests that a cooperative's equity is held more in proportion to use and the cooperative is making steady progress in redeeming the equity of former members. The average revolving period for Nebraska cooperatives was 17 years, which was comparable to those of Iowa, Kansas, and South Dakota. The average revolving period varied substantially according to major business activity. The 18-year revolving period for grain and oilseed cooperatives and the 20-year revolving period for farm supply cooperatives were the longest. The revolving periods of the other six business categories ranged from 6 to 15 years.

Thirteen percent of Nebraska cooperatives did not redeem equity in 2008, compared to 23 percent of all local cooperatives. Seventeen percent of Nebraska cooperatives reported they did not redeem equity because they were attempting to increase the size of their equity accounts. Three percent reported they did not have the financial resources necessary to redeem equity, and 3 percent indicated they had little or no allocated equity to redeem. Nine percent of all local cooperatives reported they were attempting to increase the size of their equity accounts, 14 percent indicated they were financially unable to redeem equity, and 5 percent stated they had little or no allocated equity.

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[1] E. Eldon Eversull, *Cooperative Equity Redemption,* Research Report 220, Rural Business–Cooperative Programs, U.S. Department of Agriculture, Washington, D.C., June 2010. *http://www.rurdev.usda.gov/rbs/pub/RR220.pdf*

[2] Katherine C. DeVille, Jacqueline E. Penn, and E. Eldon Eversull, *Cooperative Statistics, 2008,* Service Report 69, Rural Development, U.S. Department of Agriculture, Washington, D.C., November 2009. *http://www.rurdev.usda.gov/rbs/pub/CoopStats2008.pdf*