California Cooperatives:

Today's Landscape of Worker, Housing and Childcare Cooperatives

{ Project Equity }

California Center for Cooperative Development

Sustainable Economies Law Center

The James Irvine Foundation

A NOTE FROM THE AUTHORS

This paper has been a labor of love. We appreciate the opportunity to share our passion for cooperatives and the positive impact that they are making — and can make — throughout California. Our desire is that the information and perspectives shared here will inspire you to participate in and support cooperatives, both personally and professionally, and to advocate for coops as a way to address the social and economic challenges facing our state.

To our knowledge, the information about worker, housing and childcare cooperatives presented here has not been previously compiled in one publication. Our goal is to present the worker, housing and childcare sectors in the context of the cooperative movement, and to provide easy-to-use information about each cooperative sector. To this end, the report includes landscape and strategy analyses, brief historical backgrounds and recommendations, as well as data, stories, and coop profiles that together demonstrate the impact of cooperatives. Also included are relevant legal statutes; the location and names of California cooperatives in each sector; and references to additional information. To help those who want to take a deeper dive into cooperatives, we compiled annotated bibliographies for each sector, which are included in the appendices of the separated, sector-specific versions of the report.

Thank you to all who contributed to this paper and to everyone who works toward building and strengthening the legacy of our vibrant coop community in California.

Hilary Abell, Kim Coontz and Ricardo Nuñez

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Project Team and Authors

This report is the outcome of a team effort. The primary authors each took responsibility for specific sections, but collaborated on overview sections and provided edits and feedback to one another. Coordination assistance from Annie Palacios and Franzi Charen, and editorial discussions with Karen Kahn were invaluable.

Primary Authors

Hilary Abell, Project Equity – Worker Cooperatives

E. Kim Coontz, California Center for Cooperative Development – Housing and Childcare Cooperatives

Ricardo S. Nuñez, Sustainable Economies Law Center – Legal content and legal appendices

Editor
Karen Khan

Designer
Clay Davies

Project Coordinator
Annie Palacios

Design Coordinator
Franzi Charen

Copy Editor
Katie Parker

Partnering Collaborator
Alex Stone, CooperationWorks!

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THE PROJECT PARTNERS

California Center for Cooperative Development (CCCD), based in Davis, advances cooperative development through education, training, and technical assistance in multiple sectors, spanning worker, farmer, childcare, housing, and food cooperatives. CCCD supports cooperatives throughout California and is a certified technical assistance provider withROC USA and an active member of CooperationWorks!

Project Equity is a leader in the movement to harness employee ownership (EO) to maintain thriving local businesses, create quality jobs, and address income and wealth inequality. Based in Oakland, Project Equity works nationally, and in regions around California and the country, to raise awareness of EO; help successful companies transition to worker coops, ESOPs and other EO models; and develop new strategies to scale employee ownership among low-income workers.

Sustainable Economies Law Center (SELC), based in Oakland, provides legal education and support to cooperatives, grassroots groups, and social enterprises, and has helped develop innovative cooperative enterprises such as farmland trusts, multi-stakeholder real estate cooperatives, and solar cooperatives. SELC helps shape policy and supports movements to advance more equitable and democratic economies.

The James Irvine Foundation is a private, independent foundation that has provided more than $2.09 billion in grants throughout California since its founding in 1937. Its singular goal is a California where all low-income workers have the power to advance economically.

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.

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.[1] 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.

[1] 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.

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.

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.

- 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.

INTRODUCTION

One in three Californians is a member of a cooperative. They may bank at a credit union or join the local food coop for access to fresh produce. Some are farmers who are part of agricultural producer cooperatives. Others live in cooperative housing or work at one of California's many worker cooperatives. Many people make these choices consciously, while others may not realize that they are part of the cooperative economy when they choose to bank at the local credit union or buy outdoor equipment from REI. ***In this report, we argue that with greater support, California could use cooperative models to address some of the state's biggest challenges: ever-growing wealth inequality, overpriced housing, and a dearth of affordable childcare.***

The COVID-19 pandemic exacerbated all of these challenges for California's working families. This extended crisis has also demonstrated the strength and resilience of cooperative models. Take California Solar Electric Company, for example. When the pandemic struck, the members of this worker cooperative quickly came together to ensure their company's survival. Their grit and ingenuity led to a new business line, installing solar battery storage systems. As a result, Cal Solar generated a year's worth of sales in less than a month and hit its 2020 revenue goals.

The built-in community and affordability at housing cooperatives like San Jerardo in the Salinas Valley helped members support each other and stay safe through the pandemic. Resident ownership and consistently low housing costs over San Jerardo's four decades gave families housing security during tough economic times. Childcare cooperatives, even when they couldn't operate, made decisions as a community and found ways to help families manage the crisis.

At their current size and scale, cooperatives cannot significantly shift the decades-old (and in some cases centuries-old) economic realities underlying the vulnerability of America's working- and middle-class families. With greater investment, however, cooperatives can help reverse recent trends of wealth consolidation and increasing inequality, as well as racial and gender-based disparities.

Since the 1970s, wealth accumulation for the top 1% has grown to 30.4% of total household wealth, while those in the bottom 50% hold 1.9%.[1] The legal structures that favor shareholders over other stakeholders have allowed wealth to become concentrated in the hands of a very few, leaving the majority of working Americans without the resources they need to comfortably raise their families.

The pandemic has put these trends into stark relief. While the wealth of America's billionaires increased by $1.3 trillion since March 2020, inequality.org reports that 76 million Americans lost their jobs, 100,000 businesses closed, and 2 million adults reported being behind on their rent as of January 2021.[2] Black and Brown families have suffered the greatest losses, as they so often do during economic crises.[3]

Women have also been disproportionately affected. Childcare, essential to working parents, became scarce, forcing 3 million women to leave their jobs, either because they were laid off or needed to care for their own children.[4] Policy experts predict it will take decades for mothers to regain their place in the workforce. Without innovative solutions, childcare options, which already failed to meet the needs of families, will be even more scarce in the coming years.

Cooperative models have stood the test of time, providing community-driven solutions to social and economic challenges. This report documents how cooperatives, firmly rooted in the principles of mutual self-help, can provide better job opportunities, particularly in marginalized rural communities and communities of color; offer long-term affordable housing solutions; and increase affordable childcare options. To make this vision a reality, however, will require significant investment of private and public resources, first in cooperative development organizations with the knowledge and skills to accelerate growth, and second, in ecosystems and infrastructure to support the cooperative economy.

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The Report

This report, funded by The James Irvine Foundation, examines the current state of worker, housing, and childcare cooperatives in California. Our findings demonstrate that cooperatives empower their members and offer resilient solutions to systemic problems. With proper support, these models can be replicated in communities across the state.

Goals

Three nonprofit organizations with deep expertise in cooperatives—the California Center for Cooperative Development, Project Equity, and the Sustainable Economies Law Center—researched the California cooperative landscape and co-authored this report. Our goals in this report are two fold:

1. To educate interested stakeholders, especially leaders in philanthropy, government and business who are well positioned to help scale cooperative development strategies, about California's rich cooperative landscape and its impact; and

2. To launch deeper strategic conversations about how to strengthen cooperative solutions to some of our state's biggest economic and social challenges: jobs and business ownership, housing, and childcare.

Methodology

To understand the current cooperative landscape and the challenges and opportunities in this historic moment, the project team:

• Reviewed contemporary analyses of the cooperative economy and the literature on cooperative history in the United States and California;

• Inventoried California's worker, housing and childcare cooperatives and surveyed worker coops to create up-do-date accurate listings;

• Conducted interviews with cooperative attorneys, developers, and technical assistance professionals on their experiences in the field;

• Interviewed grantmakers to understand their perspectives on cooperatives;

• Drew on their own experience as cooperative developers and the expertise of other leaders in the cooperative movement.

> "Our findings demonstrate that cooperatives empower their members and offer resilient solutions to systemic problems."

Structure

In addition to this introductory chapter, the report includes three main chapters: Worker Cooperatives, Housing Cooperatives, and Childcare Cooperatives. Each chapter showcases a distinct type of cooperative ownership: businesses owned by workers, housing owned by residents, and childcare centers owned by consumers (i.e., parents) and/or workers. Each chapter follows a similar framework to illuminate the current landscape of one type of cooperative, including:

- The social and economic issues relevant to each sector and the role of cooperatives in addressing them
- A brief history of the model as it has evolved in the United States and in California
- The ecosystem of cooperative development organizations and their supporting associations
- Recommendations to strengthen and scale the model

Findings and Recommendations

Our literature review revealed strong evidence that cooperatives have played important roles throughout history in addressing pressing social and economic issues and continue to do so today. Their impact, in fact, is far greater than their recognition. From the survey and interviews, we found an enduring commitment to the cooperative model among practitioners in the field and years of wisdom that is ready to be leveraged to scale cooperatives in different ways.

As one long-time cooperative developer said, "To be honest, scale does require circumstance."[5] Indeed, current economic, cultural, and political conditions present such circumstances. California's communities are ready for a restorative, regenerative, and just remaking of the economy through proven models such as cooperatives. Across worker, housing, and childcare cooperatives, our recommendations include strategies for growing public awareness and stakeholder engagement; changes in law and regulation that would decrease barriers to cooperative growth; and targeted investments to strengthen and grow these cooperative sectors.

What are the Roots of Cooperatives in the United States?

Throughout the world, cooperatives have a rich history as a strategy to solve economic and social problems. Individuals come together to address their shared needs by co-owning, democratically controlling, and equally sharing in the profits or benefits of the cooperative enterprise. Cooperatives vary in their particular purpose but share in common the fact that they are formed to meet members' specific objectives and structured to adapt to their changing needs. The hallmarks of cooperative enterprises are mutual self-help, self-reliance, democracy, and solidarity.

The first U.S. cooperative was a "mutual" organization founded by Benjamin Franklin in 1752 to provide fire insurance for member property owners. Today, credit unions (consumer financial cooperatives) are found in nearly every community and many well-known companies are

[5] Interview with David Thompson by Ricardo Nuñez, August 7, 2020.

cooperatives. These include consumer cooperatives such as the sporting goods store REI, purchasing cooperatives like ACE Hardware, and agricultural cooperatives such as Sunkist, Sunmaid, and Blue Diamond Almonds. Our landscape analysis uncovered some 100-plus worker cooperatives in California, more than 230 cooperative childcare centers, and over 225 housing cooperatives.

The U.S. cooperative movement often traces its roots to the period of the industrial revolution, when a group of weavers in Rochdale, Lancashire, England reacted to the over-priced, low-quality goods they were expected to buy at company stores by starting their own cooperatively owned store. The Rochdale Society of Equitable Pioneers expanded their cooperative and developed a set of guiding principles that are the roots of today's seven cooperative principles. The "Rochdale Pioneers" demonstrated the power of cooperatives in promoting the interests of less powerful members of society.

Photograph of 13 of the Rochdale Pioneers who in 1844 established the Rochdale Society of Equitable Pioneers

Since then, cooperatives have been addressing a multitude of shared needs:

• Producers like farmers, artisans or manufacturers use cooperatives to jointly process or market their goods.

• Workers in sectors as diverse as services, manufacturing, warehousing/distribution, and food production use the cooperative model to co-own and reap greater benefit from the businesses in which they work.

• Consumers use cooperatives to gain better prices, unique goods and services, or to meet shared needs like housing, utilities, and childcare.

• Small businesses or other entities use cooperatives to gain purchasing power through bulk buying, obtain products or services that are difficult to obtain individually, or share administration to reduce overhead costs.

In the modern era, three waves of cooperative development occurred during the 1970s, the 1990s, and the 2010s. Each wave addressed specific community needs. For example, many of the '70s-era coops led the movement to get healthy and natural food into consumers' hands, and the 1990s saw coops grow among immigrant workers seeking better jobs and working conditions. According to the National Cooperative Business Association CLUSA International (NCBA CLUSA), the U.S. has some 40,000 cooperatives in a wide variety of sectors.

What Defines Cooperatives?

Internationally Recognized Principles Guide Cooperatives

The International Cooperative Alliance (ICA), composed of cooperative leaders from around the world, formalized a set of propositions first articulated by the Rochdale Pioneers, establishing seven fundamental principles that guide all types of cooperatives:

1. Voluntary and open membership. Individuals exercise free will in deciding whether to seek membership in a cooperative, and cooperatives do not discriminate in their membership practices based on gender, race, social, political, religious, or other factors.

2. Democratic member control. Cooperatives are democratically controlled by their members, who actively participate in setting policies and choose the coop's leadership.

3. Member economic participation. Members contribute equitably to, and democratically control, the capital of their cooperative.

4. Autonomy and independence. Cooperatives are autonomous, self-help organizations controlled by their members.

5. Education, training, and information. Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the coop's development.

6. Cooperation among cooperatives. Cooperatives serve their members most effectively and strengthen the cooperative movement by working together.

7. Concern for community. Cooperatives work for the sustainable development of their communities through policies accepted by their members.

Cooperatives are linked nationally and internationally by the seven cooperative principles, by organizations like the ICA and its member organizations, and by traditions. A 1992 United Nations resolution led to marking the first Saturday of each July as International Day of Cooperatives. In 2012, the United Nations adopted a resolution proclaiming 2012 the International Year of Cooperatives, explaining: "Through their distinctive focus on values, cooperatives have proven themselves a resilient and viable business model that can prosper even during difficult times. This success has helped prevent many families and communities from sliding into poverty" (Secretary-General Ban Ki-moon, 2012).

Throughout the United States, cooperatives recognize October as "Co-op Month" and host conferences and offer special promotions to educate the public about the cooperative model. In 2001, the National Cooperative Business Association secured a sponsored top-level internet domain: Dot Cooperation, known as dotCoop. The domain can only be used by cooperatives and cooperative support organizations. This initiative was backed by the global cooperative community, and today, .coop domains are in use around the world.

Legal Definitions Vary

When trying to define what a cooperative is, some may look to the law to find the answer. The legal definition of a cooperative, however, varies across state and federal law. Some states have no statute defining cooperative legal entities at all.

California defines and regulates cooperative entities, with separate statutes for consumer and worker cooperatives, housing cooperatives, and agriculture/farmer cooperatives. Most of these require the word "cooperative" in the entity name and disallow the word "cooperative" for entities that are not formed under this statute. The federal Internal Revenue Service (IRS) defines cooperatives and their tax treatment under IRS code Subchapter T.

Although the legal definition of cooperative varies, cooperatives generally share a common set of operational characteristics:

- Each member has substantially equal control and ownership;
- Members have a functional role in the business;
- Transfer of ownership interest is prohibited or limited;
- There are strict limits to return on capital investments;
- Economic benefits pass to members on the basis of their patronage; and
- Business services are primarily used by the members.

Not all states define cooperative corporations in statute, and even in those that do, cooperatives may operate under a number of other legal forms, such as Limited Liability Companies (LLCs), Nonprofit Mutual Benefit Corporations, or even charitable nonprofits. Cooperatives organized under these business forms embed cooperative principles and practices into their governing documents so that they operate like a cooperative even though they are not defined as such by statute.

Finally, some organizations or groups call themselves "cooperatives" without having formed a legal entity. For these groups, being a "cooperative" means adhering to a set of practices and values that may relate directly or conceptually to formal cooperative characteristics described above.[8] This report focuses primarily on formal cooperatives.

Members of Park Plaza Cooperative celebrate their new status as a resident owned manufactured home park.

[8] For example, a group of tenants might create a shared living "cooperative" simply by adopting participatory and democratic ways of operating. Similarly, workers at a nonprofit organization or fiscally sponsored project may choose to follow cooperative democratic principles, such as one person, one vote. This type of organization may or may not have the formal cooperative attributes of joint ownership and distribution of earnings based on patronage.

What is the National Ecosystem that Supports Cooperatives?

The cooperative movement is supported by an ecosystem that has grown alongside cooperative enterprises to meet their needs for education and training, peer support, financing, and advocacy.

This report discusses the support organizations that relate to worker, housing and childcare cooperatives in the relevant chapters. Here, we identify some of the national and international organizations that serve the entire cooperative movement. Among the most prominent organizations are:

The National Cooperative Business Association, established in 1916 as the Cooperative League of America (now known as NCBA CLUSA), represents a united voice for cooperatives as it advocates for supportive public policies. In 1922, CLUSA trademarked the twin pines symbol explaining that "The pine tree is an ancient symbol of endurance and immortality. The two pines represent mutual cooperation—people helping people." To this day, the twin pines logo is an important symbol to the cooperative movement worldwide.

The Cooperative Development Foundation (CDF) is a charitable nonprofit affiliate of NCBA CLUSA that makes grants and loans to foster cooperative development, help cooperatives recover from disaster, and support research and education to advance the understanding of cooperatives.

The National Cooperative Bank (NCB) was chartered by Congress in 1978 to support, and be an advocate for, America's cooperatives and their members, especially in low-income communities, by providing innovative financial and related services.

How Does Public Policy Help Grow Cooperatives?

The federal government has been an important catalyst for the development of cooperatives, particularly as a tool to solve challenges in rural areas of the country. In 1936, a federal loan program was created to finance rural electric cooperatives to connect isolated communities to power for the first time. The 1930s also saw legislation designed to support farmer cooperatives.

In 1990, in response to cooperative advocacy, the Rural Business and Cooperatives division of the U.S. Department of Agriculture initiated the Rural Cooperative Development Grant Program (RCDG), a competitive grant program for eligible nonprofits and universities to support cooperative development in rural communities.

Despite being relatively modest in terms of funding, the RCDG program stimulated the emergence and growth of cooperative development centers operated as independent nonprofits or incorporated into university campuses. In 1999, these centers came together to create CooperationWorks! (CW!), an association that promotes best practices in cooperative development through networking, education, and professional cooperative development training programs. Today, CW! is a nonprofit whose fifty members include cooperative development centers and independent developers across the nation. CW! annually convenes the nation's premiere training programs for cooperative developers.

Over the past decade, interest in cooperatives has grown, and national organizations like NCBA, NCB and leaders in the cooperative field have rallied members of Congress in support of pro-cooperative policies. While not all initiatives yielded fruit, significant accomplishments include:

- Passage of the Main Street Employee Ownership Act (MSEOA) of 2018
The first significant legislation related to employee ownership in more than two decades and the first national legislation to mention worker cooperatives, MSEOA passed with widespread bipartisan support in both the House and Senate. The law instructs the Small Business Administration to recognize cooperatives as eligible for small business programs by

- Mandating that Small Business Development Centers (SBDCs) across the country provide training and education on employee ownership options, including worker cooperatives;
- Financing the sale of businesses to their employees; and
- Reporting on SBA's lending and outreach to employee-owned businesses.

California Solar Electric Company cooperative team

› Creation of the Interagency Working Group on Cooperative Development (IWGCD)
Authorized in 2015, IWGCD takes a "whole government" approach to cooperative development, mandating that the United States Department of Agriculture, the SBA, and the Departments of Labor, Veteran Affairs, Housing and Rural Development, and Health and Human Services engage in discussions on how cooperatives can be used to solve public policy issues. The group meets at least annually with cooperative stakeholders to discuss strategies to grow rural prosperity and address rural needs for food access and eldercare through cooperative enterprises.

› Inclusion of Cooperatives in the Economic Census
With support from the IWGCD, cooperatives were included in the 2017 economic census. The explicit inclusion of cooperatives will help determine the full economic impact of cooperatives and support better policy making.

› Formation of the Congressional Cooperative Business Caucus (CCBC)
This bipartisan caucus consists of 23 (and counting) members of Congress representing districts from 17 states. This group is instrumental in the advancement of coop-friendly policy by highlighting the economic and social impact of cooperative businesses across the country.

Cooperatives tend to attract bipartisan support, which is a great strength of the model. A number of federal recovery initiatives that explicitly include cooperatives are advancing as of this writing. For example, the Emergency Relief for Farmers of Color Act includes provisions for cooperatively owned financial institutions, as well as technical assistance and training in cooperative development.[9] The American Jobs Plan, also known as the infrastructure bill, expands support for rural electric coops, making them eligible for the first time for direct-pay investment tax credits and production tax credits for clean energy generation and storage projects. It also prioritizes support for broadband networks "owned, operated by, or affiliated with local governments, nonprofits, and cooperatives" as a means of supporting providers more concerned with community than profits.[10]

> Worker, housing and childcare cooperatives can help California families attain the financial security they need to thrive."

California's cooperative support organizations together have leveraged the national momentum for cooperative solutions for our state. In response to the pandemic, The Worker-Owned Recovery California (WORC) coalition formed to address the dual crisis of COVID-19 and the Silver Tsunami of retiring business owners by advocating that worker ownership be central in the state's recovery. The coalition is developing a comprehensive state policy agenda and advocating for funding for education, technical assistance, and grant incentives to businesses that transition to worker ownership. As worker cooperatives become more visible and showcase their strength in building a more equitable economy, cooperative advocates will be able to shine a spotlight on the success of—and the need to support—cooperative solutions to the affordable housing and childcare crises, as well. Worker, housing, and childcare cooperatives can help California families attain the financial security they need to thrive.

Indeed, the broader zeitgeist today is creating a "moment of opportunity" for cooperatives. From the Great Recession of 2008-09 and the COVID-19-related economic trauma, which created mass disillusionment with "business as usual," to the Black Lives Matter movement, which features cooperative economics in its racial justice vision, interest in more equitable economic models is on the rise and, hopefully, here to stay.

[9] O'Brien, Doug. New legislation recommends co-ops as a tool to build Black farmers' capacity to succeed. NCBA CLUSA. February 16, 2021. https://ncbaclusa.coop/blog/new-legislation-recommends-co-ops-as-tool-to-build-black-farmers-capacity-to-succeed/

[9] Voinea, Anca. U.S. coops welcome Biden's infrastructure plan. Coop News. April 9, 2021. https://www.thenews.coop/153938/sector/energy/us-co-ops-welcome-bidens-infrastructure-plan/

Cooperative Corporations under California Law

The California Cooperative Corporation Law came into effect January 1, 1984 and can be found in California Corporations Code sections 12200 to 12704. It has been updated with some amendments, including those made by AB 816, the Worker Cooperative Corporation Act (see below). Many people have a misconception that cooperatives act like or are nonprofits, but cooperatives incorporated under the California Cooperative Corporation Law will find it extremely difficult to attain tax-exempt status, primarily because a cooperative is established to further the mutual benefit of their members and not the general public.

Legal purpose of Cooperative Corporations
Cooperative Corporations "are democratically controlled and are not organized to make a profit for themselves, as such, or for their members, as such, but primarily for their members as patrons." (Cal. Corp. Code § 12201)

At their legal core, cooperatives are obligated to give members only a few basic governance rights, including:

- The right to an equal vote in the election of the Board (Cal. Corp. Code § 12253);
- The right to request and vote in an action to remove Board members (Cal. Corp. Code 12362);
- The right to take part in at least one member meeting per year (Cal. Corp. Code 12460);
- The right of access to information about the cooperative, its members, its Board meetings, and finances (Cal. Corp Code § 12591); and
- The right to approve/disapprove dissolution, merger, and other major decisions (Cal. Corp. Code § 12330).

Built in democratic structure
Per California Corporations Code Section 12480, "each member entitled to vote shall be entitled to one vote on each matter submitted to a vote of the members."

Exclusive and mandatory use of "Cooperative"
Except for a few exceptions for other types of cooperatives, only those incorporated under the California Cooperative Corporation are allowed to use the term "cooperative" in their name. In fact, all corporations formed as a cooperative corporation must use the term cooperative in their name (Cal. Corp. Code § 12311).

Cooperative member exemption
Cooperatives enjoy securities exemptions for member shares up to $1,000 per person. This is the only form of legal crowdfunding through investments (as opposed to donations) in California that requires no federal or state notice or registration. See Cal. Corp. Code § 25100(r), which reads as follows:

> Any shares or memberships issued by any corporation organized and existing pursuant to the provisions of Part 2 (commencing with Section 12200) of Division 3 of Title 1, provided the aggregate investment of any shareholder or member in shares or memberships sold pursuant

to this subdivision does not exceed one thousand dollars ($1,000). This exemption does not apply to the shares or memberships of that corporation if any promoter thereof expects or intends to make a profit directly or indirectly from any business or activity associated with the corporation or the operation of the corporation or from remuneration, other than reasonable salary, received from the corporation. This exemption does not apply to nonvoting shares or memberships of that corporation issued to any person who does not possess, and who will not acquire in connection with the issuance of nonvoting shares or memberships, voting power (Section 12253) in the corporation. This exemption also does not apply to shares or memberships issued by a nonprofit cooperative corporation organized to facilitate the creation of an unincorporated interindemnity arrangement that provides indemnification for medical malpractice to its physician and surgeon members as set forth in subdivision (q).

Built-in non-extractive finances
California Cooperative Corporations have a 15% cap on annual return on capital investment (Cal. Corp. Code § 12451).

Profits and surplus for members: Profits and surplus should be used to benefit members, including returns to members on the basis of their "patronage" (how much they purchased, how much they worked, or another form of patronage). A Cooperative Corporation *"conduct[s] its business primarily for the mutual benefit of its members as patrons of the corporation. The earnings, savings, or benefits of the corporation shall be used for the general welfare of the members or shall be proportionately and equitably distributed to some or all of its members or its patrons"* (Cal. Corp. Code § 12201).

TABLE OF CONTENTS: CALIFORNIA WORKER COOPERATIVES

ABSTRACT: WORKER COOPERATIVES

Income and wealth inequality in the United States have reached extremes that are incompatible with a society founded on principles of equality and democracy. The recession brought on by COVID-19 has exacerbated trends that were already accelerating around the country, particularly following the Great Recession just over a decade ago. California has the unfortunate distinction of being one of the country's ten most unequal states in terms of income (Barrington, 2020). Black and Latino workers are faring worse than others in our state and nationwide (Bohn et al., 2021). And while small businesses are proven job creators, they are at great risk of closure due to the dual effects of pandemic-induced shutdowns and the "pre-existing condition" of an aging population of business owners on the cusp of retirement.

Worker cooperatives and other forms of broad-based employee ownership can play a significant role in reversing these trends. Their benefits in terms of job quality, wealth-building opportunities, and civic participation are proven, but awareness of them is extremely low.

Here we describe the current landscape of worker cooperatives in California and the ecosystem of actors and programs that support them. We also recommend strategies to increase the use of worker ownership as a succession strategy for owners of small- and medium-size businesses, to foster economic development, and to reduce income and wealth inequality.

INTRODUCTION:

A MOMENT OF CRISIS AND OPPORTUNITY FOR CALIFORNIA'S WORKERS AND SMALL BUSINESSES

Unprecedented Times: A Pandemic, a Small Business Crisis, and Crumbling Democratic Institutions

COVID-19 has starkly illuminated several issues plaguing California and its workers: income and wealth inequality, entrenched and systemic racial disparities, and downward economic mobility. These were grave concerns prior to the pandemic, but 2020 pushed many businesses, workers, and families to the brink of despair. Low-paid essential workers, the backbone of our economy, have been the hardest hit. Increasingly, experts warn of a K-shaped economic recovery, which could exacerbate pre-pandemic income and wealth inequalities and doom lower-paid workers—most often people of color—to a lifetime of economic insecurity.

Small businesses and workers already faced another crisis: a "Silver Tsunami" of business closures as baby boomers—who own half of job-creating small businesses in the United

States and are turning 75 at a rate of 10,000 per day—retire. Boomers own approximately 359,000 businesses in California, which employ 3.9 million people (based on data from 2017; Project Equity, 2021). With 85% of business owners lacking succession plans, many of these companies will close altogether or sell to non-local buyers who are likely to relocate or cut jobs. In fact, they already are. Business closure stories are increasingly common due to the twin crises of the Silver Tsunami and COVID-19.

> "Boomers own approximately 359,000 businesses in California, which employ 3.9 million people."

More recently, a third crisis has come to the fore: the erosion of democratic traditions and institutions during the Trump presidency, culminating in the attacks on the capitol on January 6, 2021. Coupled with the pandemic, job loss, business closures, and other challenges, this civic crisis leaves many Californians feeling powerless and estranged from the decisions that shape their lives.

A Low-Wage Future Will Increase Instability

The state's economic projections suggest that low-paid jobs will dominate in the decade ahead. According to recent data from California's Economic Development Department, eight of the ten occupations with the most job openings pay a median income of less than $30,000 a year (EDD, 2021).

Too many Californians are already stuck in low-wage jobs. More than one-third of the state's labor force consists of essential workers whose low-paying jobs expose them to high-risk environments and leave one in three Californians living in or near poverty (Bohn et al., 2021; Mattingly et al., 2019). Countless workers are not equipped to weather the economic fallout of COVID-19. Their lives, families, and futures hang in the balance.

This convergence of economic, health, and civic crises is hurting families all across California. The situation demands swift and effective solutions, with a foundational focus on quality jobs that provide workers with stability and respect, voice and agency in their work, and opportunities to build long-term financial security. We must simultaneously save and improve existing jobs and create new jobs that enable workers to build real economic stability, ideally with a greater voice and even an ownership stake in the companies where they work.

Worker Cooperatives Offer a Time-Tested Solution

In this context, worker cooperatives and other forms of employee ownership offer proven benefits in terms of job quality, wealth-building opportunities, and civic participation. These benefits, as well as evidence that employee ownership improves business productivity and resiliency, are prompting grantmakers, local legislators, and investors across California to seriously consider this approach to economic security.

The following sections make that case. We describe the worker cooperative model, its history in the United States and in California, and the landscape of worker cooperatives in our state today, including the increasingly sophisticated and diverse ecosystem of actors that can support their growth. Expanding the presence and impact of worker cooperatives across the state will require critical investments in cooperative development and government engagement (see "Summary of Recommendations").

SECTION 1: WHAT ARE WORKER COOPERATIVES? Definitions & History

Worker cooperatives are businesses that are owned and controlled by the people who work there. They are one model for broad-based employee ownership (see "Three Employee Ownership Structures," p. 5) and a suitable option for small and large businesses alike. In a worker cooperative, the worker-owners (also known as "members") share profits and democratically govern the business on the basis of one vote per member; by contrast, at traditional companies, financial shareholders (mostly not employees) have control based on one vote per share.

A cooperative's worker-owners may collectively manage day-to-day operations, or the business may have a traditional management structure led by a CEO or General Manager. A worker-owner essentially wears two hats — their "worker" or "employee" hat and their "owner" hat — donning the worker hat for their "day job" and the owner hat when exercising ownership rights such as electing or serving on the board of directors.

"Just knowing that this is our company makes my personal investment a lot stronger." Laura Parkes, worker-owner at Cal Solar

Summary of Recommendations to Accelerate Growth of Worker Cooperatives

1. Raise awareness of worker coops and other forms of broad-based employee ownership among business owners, government agencies, and the business service provider community. Prioritize outreach campaigns to retiring business owners and education for professional service providers and nonprofit and government-funded agencies that provide technical assistance to small businesses.

2. Prioritize scalable and/or strategic coop development. Build coop development capacity and Invest in high-impact models such as: transitions of successful businesses in low- and middle-wage industries; high- and medium-touch coop development approaches that have proven economic impact for low-wage workers and workers of color; strategies that leverage industry expertise for replication; and innovative scale-oriented approaches.

3. Engage state and local governments through programs and policies to accelerate expansion of worker cooperatives. Activate local governments, Small Business Development Centers and Workforce Development Boards to promote business retention through employee ownership; unlock capital by encouraging lenders to use proven underwriting techniques that do not require individual guarantees.

Three Employee Ownership Structures

Stock options are the most common way that people who work in a business participate as co-owners, but stock options are usually reserved only for management. In contrast, broad-based employee ownership gives all employees who meet basic criteria the opportunity to become owners. Commonly called "worker ownership" or "employee ownership,"* broad-based employee ownership takes three primary forms:

• **Worker cooperatives** are democratically governed and wholly controlled by the worker-owners, who elect and serve on the board of directors and share in the profits of the business.

• **Employee Stock Ownership Plans (ESOPs)** are federally regulated retirement plans that take the form of a trust that owns all or part of a company on behalf of its employees. ESOPs are the most common form of broad-based employee ownership in the United States, and their benefits in terms of business success and employee wealth-building are well documented.

• **Employee Ownership Trusts (EOTs)** are a more flexible form of broad-based employee ownership in which a trust holds shares in a company on behalf of its employees. Like ESOPs, EOTs can be adapted to incorporate democratic principles and profit sharing. This model is well established in the United Kingdom and newer to the United States.

What distinguishes worker cooperatives from ESOPs and EOTs is democratic governance. ESOPs and EOTs are not required to involve employee-owners in governance but have the flexibility to do so. In promoting broad-based employee ownership, advocates are increasingly including this full spectrum of models to ensure that any interested business can find a fit and to broaden the appeal for policymakers and stakeholders who can help the worker cooperative sector grow.

*California code 91502.1 defines "employee ownership" as inclusive of majority ESOPs and worker-owned cooperatives.

Worker Cooperative Legal Structures

Under California law, worker cooperatives may be organized as cooperative corporations, limited liability companies (LLCs) structured according to cooperative principles, or, less frequently, as S- or C-corporations.

In 2015, the California legislature passed Assembly Bill (AB) 816, explicitly defining worker cooperatives in state law for the first time. Prior to this, many worker cooperatives organized as cooperative corporations under the state's consumer cooperative statute. AB 816 amended that statute to distinguish the unique attributes of worker cooperatives and create access to more patient forms of community capital.

AB 816 defines a worker cooperative as "a corporation ... that includes a class of worker-members who are natural persons whose patronage consists of labor contributed to or other work performed for the corporation." Another requirement of the statute (California Corporations Code § 12253.5) is that "at least 51% of the workers shall be worker-members or candidates." Now that state law explicitly defines a worker cooperative corporation, and coop advocates have created model bylaws based on this statute, forming a worker coop is relatively straightforward. Still, coops formed as LLCs remain common in California and elsewhere, but the state does not allow them to use the word "cooperative" in their legal name.

Worker Cooperatives in Action: Common Features and Practices

Like other cooperative enterprises, worker coops are guided by the seven international cooperative principles articulated by the ICA (for a full description of the principles, see Chapter 1, Introduction, page 14). Here are a few ways worker cooperatives put these principles into practice.

Voluntary and open membership (Coop Principle #1): Like all cooperatives, worker coops are committed to non-discrimination in their membership and hiring practices. In fact, many are at the leading edge of inclusive work environments. For example, Anti-Oppression Resource and Training Alliance (AORTA), a worker coop, created a hiring guide to ensure both the absence of discrimination and awareness of implicit bias and power dynamics in hiring processes, and to provide guidance on engaging workers in selecting their future peers.

> **"Worker coops are committed to non-discrimination in their membership and hiring practices."**

Processes for bringing on new members: Workers typically enter a worker cooperative as an employee and a "candidate" for membership.[1] Each coop decides the length and requirements of candidacy and whether membership is mandatory or optional for workers who qualify. Most candidacy periods are between six months and two years. When members join a cooperative, they usually make a modest initial capital contribution, sometimes called a "buy-in" or worker-owner share, which can be paid over time (including through payroll deduction) and is returned when they leave. Membership requirements may be as simple as being a good worker and initiating the buy-in payments or as robust as passing rigorous performance reviews, being approved for membership by other worker-owners, and demonstrating knowledge of members' roles and responsibilities.

Democratic governance (Coop Principle #2): Worker cooperatives are democratically controlled by their members (worker-owners), who elect and serve on the board of directors. Some worker coops use representative models, in which worker-owners elect a board at an

[1] Key terms related to worker cooperative membership in California are described in ARTICLE 2. General Provisions and Definitions § 12238.

annual members' assembly, and others govern collectively with all members on the board. Though collectives tend to be smaller enterprises, examples of larger collectives in California include Arizmendi Bakeries and Rainbow Grocery.

In representative models, the board provides strategic guidance and oversight of management and finances but stays out of operational decision making. Foundational decisions such as bylaw amendments are voted on by all members. The board may include "outside" directors who bring needed expertise as long as worker-members constitute the majority. Alvarado Street Bakery is an example of a large California worker cooperative with representative democracy.

Because of anti-democratic trends and events we are experiencing as a nation, worker coop members and the general public have become increasingly aware that democracy must be constantly reinvigorated. This is an important contribution that worker cooperatives make to society: deeply embedding and practicing democracy in the very place where most people spend the most time—at work. As we discuss in more detail below, democratic governance fosters better working conditions and promotes civic engagement as worker-owners learn together and make decisions about what is best for them, their fellow workers, and their communities.

Participatory management: While democratic control is a defining feature of governance in a worker cooperative, a coop's management practices need not be democratic in the literal sense of the term (for example, decided by majority vote). Worker coops can, and often do, have hierarchical management structures, with senior leadership always accountable to the board. In addition, worker coop managers nearly always cultivate and rely on a high degree of employee and member engagement. Thus, worker coops incorporate innovative and participatory management approaches in both more conventional and flatter organizational structures.

How money flows through a worker cooperative[2] (Coop Principle 3): Each worker-owner buys a membership share (see "buy-in" below), which entitles them to share in the coop's net income or surplus. After each profitable year, a coop invests some of its surplus in retained earnings and allocates the rest to individual worker-owners on the basis of "patronage," which is typically measured by work performed or hours worked. Some of the patronage then stays in the members' internal capital accounts, which are itemized on the company's balance sheet, and the rest (at least 20% by law) is paid out in cash to the members. The wealth that the business generates is thereby directed to those who create it through their labor. In the minority of worker coops that have outside investors, their financial returns are limited to the IRS' cap of 8% or less (To learn more about patronage, see "Wealth Building in Worker Cooperatives," p. 8).

[2] Cooperative Equity and Ownership: An Introduction provides an in-depth primer on equity in cooperatives of all types, and, on page 30, discusses worker cooperatives specifically.

Education, training, and information sharing (Coop Principle 4): Many worker cooperatives put substantial resources (both time and money) toward onboarding and continuously training workers, incorporating transparency practices like open-book management and participatory planning, and building skills for healthy communication and conflict resolution.

HISTORY OF WORKER COOPERATIVES

Worker cooperatives are both innovative and time-tested. As a strategy for economic development in the United States, the model is new. But as a way of doing business, worker cooperatives have stood the test of time and have deep historical roots in California, the United States, and many other countries.

The Cooperative Movement is Inspired by International Examples

Societies throughout history and around the globe have practiced cooperative economics, but worker cooperatives, as we know them today, trace their origins to the early 19th century when workers struggled for self-determination in the face of rapid industrialization. The international cooperative principles that define modern cooperatives were famously articulated by the "Rochdale Pioneers" in England in 1844 and reiterated by an international alliance of cooperatives formed 50 years later.[3]

Around the globe, worker cooperatives have found their greatest inspiration in the Mondragon cooperatives (see "The Mondragon Cooperative Corporation," p. 10), which began in 1956 in the Basque region of Spain as a response to economic devastation following the Spanish Civil War. Today, the Mondragon Cooperative Corporation encompasses 96 worker cooperatives under its umbrella, and employs tens of thousands of people.

The aftermath of World War II also saw robust growth of a diversified and dense worker cooperative sector in the Emilia Romagna region of Northern Italy. Today, Emilia Romagna is one of the wealthiest regions per capita—and one of the most equitable—in Europe.

[3] The International Cooperative Alliance (ICA) was formed in 1895. The International Organisation of Cooperatives in Industry and Services (known by its acronym CICOPA) is the branch of the ICA that promotes worker and producer cooperatives, as well as the newer "social cooperatives." CICOPA was founded in 1947 and connects individuals and organizations in the U.S. worker coop community to worker cooperatives internationally.

Wealth building in worker cooperatives

Successful worker coops support wealth building in many ways, the most unique of which is member profit sharing, known as patronage. Together, the following attributes create a strong foundation for member economic security:

1. **Quality jobs.** While income is distinct from wealth, high-quality jobs provide a foundation for saving and planning for the future, the first steps of wealth building. Jobs in worker coops tend to offer better compensation, job security, and quality of life, because worker-owners have a say in workplace policies and governance, and the business exists to serve its members.

2. **Patronage distributions.** In profitable years, members receive cash distributions of all or a portion of their patronage (allocation of profits based on members' contributions to the business, such as hours worked). The coop's bylaws or board will determine how much patronage is kept in the business for working capital or reserve fund purposes, and how much is paid out immediately or at a planned point down the road. By law, at least 20% must be paid out in the year that patronage is declared.

Italy inspires the U.S. worker cooperative movement because of its rich ecosystem of support for worker cooperatives: government policies and programs as well as cooperative federations that promote replication, growth, and scaling of cooperatives, even while many individual worker coops remain small.

Worker cooperatives have deep roots in the United States and California

The first cooperatives in the United States were farmer and consumer cooperatives, including a mutual fire insurance company founded by Benjamin Franklin in 1752 (Pitman, 2018). Worker cooperatives emerged in the 1860s as a response to the crisis of industrialization. The Knights of Labor formed some 200 industrial worker cooperatives in the latter part of the 19th century and, together with rural farmers, attempted to form a national cooperative (Ness, 2012).

Around this time, some of the earliest California worker cooperatives (at least 15 of them) were formed in San Francisco, most of them founded by workers at risk of losing their jobs when the Transcontinental Railroad was completed. Most were industrial cooperatives, at least two were women's cooperatives, and newly arriving Chinese workers also formed cooperative businesses during this time (Curl, 2018). One of today's leading 100% employee-owned companies, San Francisco-based Recology (an ESOP today), has its early roots among 19th-century Italian immigrants who formed recycling (or "scavenger") cooperatives, one of which eventually merged into what is now Recology.

Historian Ira Cross wrote in 1905: "In no place is the cooperative movement so strong or so successful as in California" (Curl, 2018). During the next major crisis, the Great Depression, another wave of cooperative organizing took hold, and grassroots cooperatives (essentially worker coops based on barter) emerged across California, with hotspots in Compton and Oakland. Inspired by these Depression-era self-help work organizations, Upton Sinclair integrated cooperative organizing into his 1934 campaign for the governorship as part of his End Poverty In California (EPIC) platform. As the Democratic Party's gubernatorial nominee, Sinclair won 38% of the vote.

Wealth building, continued

3. Retained patronage. Each coop member has an internal capital account (ICA) under their name, which is documented on the coop's balance sheet. Their initial buy-in seeds the account, and in profitable years, the share of that member's patronage that is not paid out in cash adds to the balance in their ICA. While it belongs to individual members, this retained patronage is a key way that members help capitalize the operations and financial foundation of their business. It is also an important tool for members' individual financial planning and asset building. Retained patronage is itself an asset, and it can become a liquid asset when paid out at a later date (many coops use a three year "revolving fund" approach) or when the member leaves the cooperative.

4. Financial services. Many worker coops provide no-interest loans to support members in emergency situations and help them avoid predatory lending. Linking members to financial services via credit union partnerships, financial coaching, first time homebuyer programs or other services is also increasingly common among worker coops.

Now is a Moment of Opportunity

In the modern era, three waves of cooperative development occurred during the 1970s, the 1990s, and the 2010s. Each wave addressed specific community needs. For example, many of the '70s-era coops led the movement to get healthy and natural food into consumers' hands, and the 1990s saw coops grow among immigrant workers seeking better jobs and working conditions.

Today's momentum has many sources: the search for solutions to the growing wealth and income gaps that are undermining civic cohesion, interest among retiring business owners seeking an exit strategy that will preserve their legacy, and millenials' search for agency and meaning at work. Numerous worker coop advocates and practitioners have expanded their organizations and programs in recent years, helping significantly to build this momentum. As a result, worker cooperatives are capturing the imagination of a wide array of stakeholders, including foundations, local governments, state legislators, social justice movements, entrepreneurs, small business service providers, among others.

The broader zeitgeist is also creating a moment of opportunity for worker cooperatives. From the Great Recession of 2008-09 and COVID-19-related economic trauma, which created mass disillusionment with "business as usual," to the Black Lives Matter movement, which features cooperative economics in its racial justice vision, interest in more equitable economic models is on the rise and, hopefully, here to stay.

The Mondragon Cooperative Corporation

The Mondragon Cooperative Corporation employs more than 81,000 workers, is the leading business group in Spain's Basque region where it is headquartered, and has operations around the globe. This cooperative conglomerate includes nearly 100 individual cooperatives and four business lines: finance, manufacturing, retail, and knowledge (research & development, with a total of 14 R&D centers). The first Mondragon cooperatives were founded by graduates of a technical school started by Father Jose Maria Arizmendiarrieta in the 1940s in the aftermath of the Spanish Civil War. Today, Mondragon is the tenth largest industrial group in Spain and exports to 150 countries.

Mondragon is widely known as the world's largest network of worker cooperatives. Cooperators from across the globe visit Mondragon every year to learn about coops, innovation, and social entrepreneurship. Thanks to Mondragon, the Basque region in Spain ranks with Northern Italy, France, and Quebec as having the world's densest concentrations of worker cooperatives.

One particularly telling descriptor of Mondragon's success is that it is widely considered "recession proof." During the Great Recession, Mondragon workers across the board took average pay cuts of 5%, with management getting the deepest cuts, in order to avoid layoffs. The few workers who were laid off were hired at other Mondragon companies or granted early retirement or generous severance packages, resulting in virtually no unemployment among Mondragon workers (Tremlett, 2013; Goodman, 2020). Recently, the *New York Times* reported that Mondragon has excelled in avoiding layoffs during the COVID-19 pandemic as well.

SECTION 2:
WHAT IS THE LANDSCAPE OF WORKER COOPS IN CALIFORNIA? A Snapshot

California is a leader in the national worker cooperative movement, with an estimated 100 active worker cooperatives today. While 100 coops represent a small percentage of the businesses in our vast state, they constitute around 20% of the nation's total known worker cooperatives. These coops coexist alongside an estimated 800 California-based companies with Employee Stock Ownership Plans (ESOPs), another form of broad-based employee ownership, and hundreds of consumer, housing, agricultural, childcare, financial (i.e., credit unions), and multi-stakeholder cooperatives.

The following landscape analysis is freshly informed by a survey of California worker coops that Project Equity conducted in fall 2020. Respondents represented about one third of the state's worker coops across a variety of industries. They provided valuable insights about the benefits and challenges facing worker coops today.

Mondragon, continued

Inspired by Mondragon and by their own cultures of solidarity, many U.S. worker cooperatives have a similar practice of prioritizing employee retention during hard times. This is markedly different from conventionally owned firms.

As the *New York Times* explained, many large businesses have spent years distributing earnings in the form of shareholder dividends and buy-backs of their own shares to lift stock prices. When the COVID-19 pandemic hit, many companies had insufficient reserves, "prompting managers to furlough and fire workers to cut costs. Cooperatives have been expressly created to prevent such outcomes. They typically require managers to plow the bulk of their profits back into the company to prevent layoffs in times of duress" (Goodman, 2020).

More than 1,500 Californians are Employed by Worker Cooperatives

An estimated 1,530 workers gain their livelihoods today from California worker cooperatives. While the average size of a worker coop in the United States is 10-11 employees, we estimate the average number of employees in California worker coops to be 15.8 and, when looking only at cooperatives in operation for five or more years, it rose to 21.6.[4] The vast majority of these jobs are full-time.

The uptick in mature businesses transitioning to worker cooperatives is likely driving an increase in the number of mid-sized worker coops and the average number of employees. In our sample, the average number of employees in transitioned businesses was 18, compared to eight for businesses that started as cooperatives.

The majority of workers in worker cooperatives across the United States are women and people of color. The U.S. Federation of Worker Cooperatives' 2019 Worker Cooperative Economic Census found the following demographic breakdowns among worker coop employees:

- **Gender:** 62% female, 36% male, 2% nonbinary
- **Race and ethnicity:** 41% white, 38% Latinx, 13% Black, 6% other

[4] Rainbow Grocery, with 225 employees, is an outlier, so we did the calculation without Rainbow, and estimated the average number of employees in California worker cooperatives to be 13.7. When excluding both Rainbow and coops that launched within the last five years, the average was 16.3. These numbers will rise with the growth of the state's staffing cooperatives, which employ larger numbers of workers, often in part-time or transitional jobs.

While no such analysis has been done for California alone, leaders in the worker coop community similarly report a racially diverse workforce. This is an important area for future research and for strategic emphasis, given that many worker coop proponents and their allies bring an equity lens and racial justice imperative to the work.

California Worker Coops are Concentrated in the Bay Area

A large majority of California's worker cooperatives (78 of 100 in our count) are in the San Francisco Bay area (see "A Quarter Century of Cooperative Growth in the San Francisco Bay Area," p. 33), but a growing number exist across the state, as far north as Arcata and as far south as La Jolla.

• **Ten worker coops are in Southern California,** and the iconic Los Angeles company Proof Bakery completed its transition to a worker cooperative in 2021. With the City of Long Beach and the City and County of Los Angeles all backing employee ownership education and outreach efforts, the number of worker coops in Southern California will likely double in the next few years.

• **In the Sierra foothills,** Grass Valley-based California Solar Electric (Cal Solar) became a worker cooperative after 19 years in business (see Profile, p. 51). Cal Solar is one of eight worker coops headquartered or employing people in rural areas throughout California.

We expect further growth of cooperatives outside of the Bay Area through initiatives like that of Humboldt County's North Coast Small Business Development Center (SBDC). One of the pioneering SBDCs demonstrating how to implement the Main Street Employee Ownership Act of 2018[5] on a local level, North Coast SBDC has been promoting employee ownership and coop transitions for the past two years.

[5] The Main Street Employee Ownership Act, signed into law in August 2018, requires the U.S. Small Business Administration and Small Business Development Centers to increase lending to employee-owned companies and promote succession planning, including employee ownership. See this article for more information.

Worker Cooperatives Are More Than Workplaces

In our Fall 2020 survey of California's worker cooperatives, we heard about the special character of cooperatives, and why so many worker-owners are deeply committed to their success.

• The General Manager of Restif Cleaning, a coop with 25 worker-owners and more than 30 employees in a rural area, aptly describes the culture of worker cooperatives: "The camaraderie and sense of accomplishment that come from [working together in this way] cannot be gained from most corporate institutions."

• A member of Root Volume, a landscaping cooperative associated with the Arizmendi Association, illustrates how worker coops adapt to crises: "Our ability to be flexible, to accommodate the needs of every individual worker-owner, was a huge asset" when the business had to close for two months during the pandemic (a PPP loan helped them get back to work). She added, "We have endured some insane challenges also with regard to fire season and the air quality. But we are a community first and then a business. And that mindset makes work a safe space that can be trusted and relied on."

• A co-owner of Pangea Legal Services, with 15 full-time worker-owners in San Francisco, describes the long-term viability of worker cooperatives more broadly in his industry-specific comment: "I'm a believer in the cooperative model for legal service providers ... because it creates a more positive, healthy, sustainable work environment. This allows us to focus on our clients and their problems, rather than on our office politics and internal power struggles. This increases our ... productivity in the long term, because it allows us to continue doing the work ...."

Worker Cooperatives Can Thrive in Almost Any Industry

California's worker cooperatives span many industries. The following non-exhaustive list of these industries includes examples of worker coops operating in each of them (a full list of California worker coops begins on p. 62):

- **Cleaning services** (TeamWorks, Yolo Eco-Clean, Restif Cleaning, Emma's Eco-Clean)
- **Construction** (Davis Home Pros, Arizmendi Construction)
- **Education services** (Uptima Business Bootcamp, Maybeck High School)
- **Farming and food distribution** (Flying V Farm, FEED Sonoma)
- **Grocery stores** (Mandela Grocery Cooperative, Rainbow Grocery)
- **Health care services** (NursesCan Cooperative, Sarana Community Acupuncture)
- **Landscaping services** (Root Volume, Rhizome Urban Gardens)
- **Manufacturing** (Adams & Chittenden Scientific Glass, Alvarado Street Bakery)
- **Pet care services** (SCRUF Pet Care Collective, Dog Social Club)
- **Professional services** (Pangea Legal Services, Rockman et al)
- **Restaurants, limited-service** (Arizmendi bakeries, A Slice of New York, Niles Pie Company)
- **Solar energy** (California Solar Electric, Namasté Solar)
- **Staffing** (AlliedUP, Turning Basin Labs)

AlliedUp: A New Union-Coop Aiming to Change the Labor Market in Allied Health

AlliedUP Cooperative Inc. is a specialized allied healthcare* coop owned by its member workers. AlliedUP launched in January 2021 under the leadership of CEO Carey Carpineta, a recognized leader and innovator. As a unionized, worker-owned staffing company, the coop aims to create a transformational new work model and support the community, rich in diversity, by:

- **Fostering workplace equity** through AlliedUP's core values of mutual respect, mentorship, union-scale wages, portable benefits, retirement plans, and delivering a share of the profits to worker-owners.

- **Empowering workers,** as owners of the company, to actively play a role in building a better business model that delivers improved healthcare outcomes, while prioritizing the needs and voices of worker-owners.

- **Removing economic and social barriers** and creating educational pathways for low-wage workers, who are primarily people of color.

AlliedUp grew from the desire of a large California union, SEIU-UHW, to radically re-envision healthcare staffing to create better outcomes for workers, patients, and communities, building on the union's education and training programs for both members and non-members. Even before the dangerous working conditions and injustices of the COVID-19 pandemic, SEIU-UHW's 100,000 members faced many challenges: growing workforce shortages, stunted career pathways, and the industry's over-reliance on contingent workers who lack benefits and contracting out what would otherwise be union jobs. AlliedUP, whose workers are members of SEIU-UHW, addresses these challenges head-on and demonstrates a better model for the staffing industry.

*Within California's $367.5 billion healthcare industry, allied health includes technicians, therapists and assistants who often provide services through staffing agencies or on a contract basis.

Support organizations

California is home to many local, statewide, and national organizations advocating for and supporting worker cooperatives. Section 5 provides an in-depth look at multiple facets of the ecosystem and how they are, or could be, instrumental in fostering worker coops around the state. Among the organizations that play leadership roles in the statewide ecosystem are:

- **California Center for Cooperative Development (CCCD):** With headquarters in Davis, CCCD advances cooperative development through education, training, and technical assistance in multiple sectors, spanning worker, farmer, consumer, and housing cooperatives. CCCD is a certified technical assistance provider for ROC USA and an active member of CooperationWorks!

- **Democracy at Work Institute (DAWI):** Headquartered in Oakland, DAWI is a national organization dedicated to building the field of worker cooperative development through research, education, resources, and relationships. DAWI is associated with the **U.S. Federation of Worker Cooperatives**, which actively supports its members and advocacy efforts in California.

- **Project Equity:** With its primary office in Oakland and staff around the country (including a small team in Los Angeles), Project Equity focuses on raising awareness of employee ownership and driving transitions of successful companies to employee ownership in order to sustain and foster high quality jobs, workers' voice and agency, professional development, and community wealth building.

Evan Edwards of Project Equity (pictured left) at an employee ownership event in Long Beach

- **Sustainable Economies Law Center (SELC):** Oakland-based SELC provides legal education and support to cooperatives, grassroots groups, and social enterprises, and has helped develop innovative cooperative enterprises such as farmland trusts, multi-stakeholder real estate cooperatives, and solar cooperatives. SELC helps shape policy and supports movements to advance more equitable and democratic economies.

SECTION 3:
WHAT ARE THE BENEFITS OF WORKER COOPERATIVES?
Their Impacts on Workers, Businesses & Communities

A growing body of data and dozens of case studies demonstrate that worker cooperatives provide quality jobs, stable employment, and other benefits for workers, while also creating strong businesses and communities. Much of this evidence is summarized in *The Case for Employee Ownership: Why philanthropy and government should invest in this powerful business model* (Abell, 2020).[6] We describe these benefits and provide supporting data below, along with real-world examples from California worker cooperatives.

Worker Coops Provide a Wide Range of Benefits for Workers

Worker cooperatives provide high-quality stable jobs, greater control over working conditions, and wealth-building opportunities for workers and their families. The shared risks and rewards of cooperatives reduce barriers to business ownership, making membership in a worker cooperative appealing to workers who might not have the resources to start a business on their own. With home ownership increasingly out of reach for working- and middle-class Californians (see Chapter 3, "Housing Cooperatives"), business ownership has become an important means of developing assets.

Following are seven distinct ways that worker cooperatives provide quality jobs and enhance the economic security of their workers (for specific examples, see "California Worker Cooperatives Provide Quality Jobs", p.18).

1. Above market pay and benefits

A 2017 study by the University of Wisconsin and the Democracy at Work Institute found that workers report earning an average of $2 more per hour in their worker cooperatives than at their previous jobs. In addition, three quarters of respondents reported that benefits at their current job met their family's needs as well (25%) or better (50%) than the benefits at their previous job (Schlachter, 2017).

In Project Equity's fall 2020 survey of California worker coops, 65% of the established businesses (those operating for more than five years) indicated that the incomes of the workers in their cooperatives had increased, either through profit sharing or better wages (40% strongly agreed and 25% agreed). All but one of the remaining respondents neither agreed nor disagreed. Additionally, 40% reported having a better benefits package than other companies in their industries.

[6] Readers can find primary sources from dozens of studies on broad-based employee ownership, including both worker cooperatives and ESOPs, in Project Equity's recent white paper, *The Case for Employee Ownership* (Abell, 2020). Many of the original studies cited there can be found in the Curriculum Library for Employee Ownership at Rutgers University. ESOPs are more widely studied than worker coops in the United States, but there is a growing body of data and case studies that documents the benefits of worker coops (see our annotated list of case studies). Notably, a 2017 national study by the University of Wisconsin's Laura Hanson Schlachter and the Democracy at Work Institute provided an unprecedented level of data on worker cooperatives in the United States. More than 1,100 employees and worker-owners participated, representing 82 firms spanning 14 industries.

2. Greater control over schedules and working conditions

Worker cooperatives create humane, family-friendly workplaces and prioritize employees' preferences in scheduling. This helps workers maximize earning by scheduling work hours to reduce childcare costs, for example. Coops also give workers more advance notice of their work schedules, countering the trends of last-minute "on-demand" scheduling among corporate employers (McCarty Carino, 2019). These benefits are highly prized among worker coop members.

3. Wealth building through patronage

While worker-owners' membership shares do not appreciate (but rather retain their original value), they entitle each co-owner to patronage (a share of net profits) as well as voting rights. The amount of patronage varies considerably but can be significant.

In its "2019 State of the Sector'' report, the Democracy at Work Institute and U.S. Federation of Worker Cooperatives found that "worker co-ops that distribute surplus as patronage to members distribute ... an average distribution of $8,241 to each worker owner" (Palmer, 2020). Another survey with more than 1,000 individual respondents found that the majority of worker-owners felt confident that they could find $2,000 within 30 days if needed in an emergency (Schlachter, 2017)—a dramatic contrast to the fact that, during the same time period, more than 40% of U.S. adults surveyed did not have the cash (or its equivalent) to cover a $400 emergency expense (Federal Reserve, 2020).

Worker-owners at The Local Butcher Shop in Berkeley

Patronage is the main way that worker coops build wealth for their members, but providing quality jobs and financial services to members is also part of wealth building (see "Wealth Building in Worker Cooperatives," p. 8).

4. Skill building and professional development

In Project Equity's 2020 survey, 84% of respondents agreed that "workers have opportunities to increase their skills, take on new leadership roles, or be promoted within our worker cooperative." As TeamWorks founder David Smathers Moore explains, "Coops provide for human development and better relationships within companies. This happens within traditional companies, but it can be a more central value in coops: career advancement, personal and professional development, genuinely positive relationships, and a culture that supports that" (Abell, 2014).

The diverse skill sets developed through worker ownership encompass business, communication, finance, decision-making, and other professional and life skills, and are transferable to other work settings, personal situations, and community leadership roles.

Saul Rockman, founder of Rockman et al, with new worker-owners

5. Well-being and psychological safety

Worker ownership creates a more supportive environment for workers, eases stress, and directly or indirectly supports workers' and families' well-being. A comment voiced by a worker-owner during discussions at the 2018 Worker Cooperative National Conference expresses this sentiment: "I finally feel I can be myself at work, and that is worth a lot."

6. A voice in key decisions

Another worker-owner shared that "I have a voice at work and can influence the direction of the company." Worker coops can be structured in many different ways, with more or fewer decisions made by the full membership, by the board or by management, and with varying degrees of worker participation. What is universal is that decision-making roles are clearly defined, and members have control over the highest decision-making body and the most foundational decisions.

7. Dignity

In addition to enhancing income, assets, skills, and participation through their democratic structures and cultures, worker cooperatives uphold the basic dignity of every worker, a benefit that cannot be overstated. As Molly Hemstreet, co-founder of Opportunity Threads cooperative and The Industrial Commons in North Carolina puts it: "Coops are not a panacea; they're not necessarily for everybody. But for the people involved, [the experience] lights a fire under them. There's no going back. There's something intangible, and also deeply moving. I'd call it 'human dignity'" (Abell, 2014).

Walter Vicente, worker-owner at Opportunity Threads Cooperative in North Carolina

California Worker Cooperatives Provide Quality Jobs

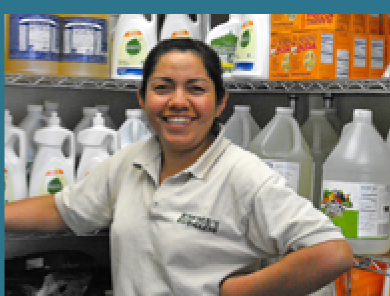
Real examples from cooperative businesses throughout California show how workers are thriving even in low-wage industries–restaurants and cafes, food manufacturing, and commercial and home cleaning. These worker coops make a difference for Californians every day by providing quality jobs with dignity and real wealth-building opportunities.

Worker-owners at Mandela Grocery Cooperative in Oakland

Above market pay and benefits

• **Restif Cleaning, based outside Eureka,** provides a wide range of janitorial, house cleaning, window and carpet cleaning, and related services. It has been a cooperative since the original owner sold it to the employees in 1990, seven years after launching the company. Restif reports that its janitors' total compensation is greater than unionized janitors working for the county where the company is based, and about twice the going rate for contract employees doing similar work in its area (Renfer, 2019).

• **For more than 40 years, Alvarado Street Bakery** has been creating sustainable livelihoods for its workers and selling organic breads and other baked goods. The Petaluma-based company, which now distributes its goods nationally, has a robust compensation package, including full health coverage, quarterly bonuses, and a 401(k) plan to which the business contributes $5,000 per person per year without requiring an employee match.



Clementina Parramo, founding member of Emma's Eco-Clean, a worker coop founded in 1998 in Redwood City

• **In worker-owned green housecleaning businesses formed by the nonprofit Women's Action to Gain Economic Security (WAGES)** in the late 1990s and 2000s, worker-owners increased their household incomes by 40-80%, had health insurance for the first time, and accumulated thousands of dollars in savings in the "internal capital accounts" that they held in their businesses (Abell, 2014). The oldest of these cooperatives, Emma's Eco-Clean, based in Redwood City, has been going strong for more than 20 years and has 27 co-owners today.

Greater control over schedules and working conditions

• **Natural Home Cleaning and Home Green Home,** two Bay Area cleaning coops founded in the 2000s, required a minimum commitment of available hours, but let workers choose their daily start and end times within those parameters. Yolo Eco-Clean Cooperative in Davis (see profile, p. 52) has a similar practice.

• **During the COVID-19 pandemic, Yolo Eco-Clean workers** had the option not to work if they felt at risk, and they all participated in developing protocols for maintaining the safety of workers and clients. In another example of worker agency, this coop "fired" a client whose guns and drugs made workers uncomfortable in the home.

Team of worker-owners at A Slice of New York

• **A Slice of New York, a pair of South Bay pizza shops** that transitioned to a single worker coop in 2017, prides itself on supporting its employees' family and artistic priorities and adjusts work schedules accordingly.

Wealth building through patronage

• **Two Bay Area companies** that transitioned to worker cooperatives in 2017 are demonstrating the asset-building effects of worker ownership in a low-wage industry: food service. In 2019, the now worker-owned Niles Pie Company distributed the equivalent of an additional $4.50 per hour worked in cash patronage to worker-owners. Within the first year following their conversion to a worker coop, A Slice of New York raised wages and distributed more than $300,000 of 2018 profits to its 35 employees. Profit sharing (patronage) was almost as much the following year and has continued (albeit at a lower level) even during the pandemic.

Skill building and professional development

• **In the Arizmendi Association of Cooperatives**, member candidates rotate through each committee as part of their training and orientation to the cooperative. This includes training in reading financial statements, setting policies, business and employment law, and more.

• **TeamWorks Cleaning Cooperative** took extraordinary steps during the COVID-19 pandemic to find a silver lining through skills development and community building when the business was closed for nearly three months. Coop members educated themselves and their clients about COVID-19 and participated in an intensive paid online learning program that continued even after they returned to work under strict safety protocols. Building on the coop's longstanding commitment to member capacity building, an outside trainer initially taught computer literacy and online meeting skills, then trained coop members to lead workshops on topics ranging from stress management to personal finances.

Well-being and psychological safety

• **A worker-owner at Niles Pie Company** expresses coop psychological and cultural advantages this way: "I really like the people we serve and the team I work with. No one hates each other! … We don't bring negative energy to our workplace, which is really great. And we keep looking forward. Everyone is on the same page. I think that's hard to find these days in many jobs."

• **One iconic worker coop in Berkeley, The Cheese Board Collective,** owns land with a cabin that members can use for free getaways, demonstrating the coop's commitment to worker well-being.

A voice in key decisions

• **The Arizmendi Association of Cooperatives** illustrates how worker-owners drive big strategic decisions. The association's board, made up of worker-owners from each member cooperative, must approve the development of new cooperatives, ensuring that new coops don't compete directly for the same customers as existing coops.

Worker-owners of the Arizmendi Association of Cooperatives

• **Hasta Muerte coffee shop in Oakland's Fruitvale neighborhood** provides an example of how coops prioritized workers and community during the COVID-19 pandemic. When shelter-in-place orders hit, the members decided to pause business operations to allow workers to focus on caring for their families and communities. The coop successfully applied for first round PPP funding and, later, a small grant from the city. Unlike some companies that received such funding and still laid off workers, Hasta Muerte re-opened in July 2020 with all the worker-owners who wanted to return. Two decided to continue to focus on their families but have the option of returning at a later date.

• **A Slice of New York** provides another example of essential workers deciding together how to navigate the pandemic. Workers proposed significant shifts in operations, such as suspending their signature "pizza-by-the-slice" and selling frozen whole pies for the first time, changes that were key to the company's survival. Later, in August 2020 and again in August 2021, the board (made up of worker-owners) decided to close their two pizza shops for a week and provide the entire staff with additional paid vacation. While this was expensive, it supported the resiliency of both the workers and the company they co-own.

Benefits for Businesses

Giving workers an ownership stake and an authentic voice in the workplace also promotes business success. Since the 1980s, dozens of studies of ESOP companies have demonstrated a link between employee ownership and business productivity, growth and longevity.[8] In the past decade, studies of worker cooperatives have begun to emerge with similar data (e.g., Schlachter, 2017), along with ample anecdotal evidence of better business performance.

[8] Many such studies are cited within a succinct summary in *The Case for Employee Ownership* (Abell, 2020), and source documents and in-depth discussions can be found in the Curriculum Library for Employee Ownership (cleo.rutgers.edu) and the National Center for Employee Ownership's website (nceo.org).

Enhanced Growth and Productivity

In Project Equity's 2020 California worker coop survey, more than 60% of respondents (and 70% of established businesses) said that they either agree or strongly agree that "being a cooperative increases the productivity of their business." This subjective assessment is confirmed by two earlier findings about worker cooperative productivity:

• **The Democracy at Work Institute,** in its 2013 annual survey of worker cooperatives, found that worker cooperatives 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, 2015).

• **Plywood cooperatives in the Pacific Northwest** (more than 20 of them thrived from the 1930s to 1970s) were found, in the only sizable academic study of participation and productivity of U.S. worker cooperatives, to be 6 to 14% more efficient in their output compared to conventional mills (Craig & Pencavel, 1995).

Reduced Employee Turnover

Anecdotal evidence from many worker coops shows that coops have substantially lower employee turnover than their industry peers. One well-documented example is Cooperative Home Care Associates (CHCA), the largest worker cooperative in the United States. A 2018 report showed that, among its 2,000-plus employees, 65% of new hires at CHCA remained in their jobs after one year, as compared to 37% in comparable organizations (CHCA, 2018). Worker coops throughout California cite long employee tenure in high-turnover industries, including retail, cleaning services, and bakeries.

"Worker coops throughout California cite long employee tenure in high-turnover industries."

Firm Survival

In addition to productivity and employee retention, business longevity is a hallmark of employee-owned and cooperative enterprises.

• **In 2019, a longevity analysis of U.S. worker coops** found that more than 25% are 6-10 years old, compared to 19% of all U.S. small businesses, and nearly 15% are more than 26 years old as compared to 12% of U.S. small businesses (Palmer, 2020).

• **A study of worker cooperatives in Uruguay** used a very large data sample and found that "worker cooperatives had a 29% lower rate of dissolution than conventional firms and that the higher survival rate is associated with greater employment stability" (Burdín, 2014).

Benefits for Society

Worker cooperatives also create a number of benefits for society as a whole, including better business practices, social innovation, community development, civic engagement, and greater equality across gender and race.

Better Business Practices and Innovation.

Coops can provide a corporate ideal to emulate, demonstrating to competitors and policymakers that "high-road" employment practices are both possible and profitable. CHCA, for example, has been a laboratory for its nonprofit partner, Paraprofessional Healthcare Institute (PHI), to develop and disseminate workplace policies and practices that create better jobs, leading to higher quality home care. PHI influences policy in the home healthcare industry across the country.

Several California cooperatives provide examples of innovative practices that benefit their industry, the larger community, and the planet. Alvarado Street Bakery, for example, has consistently, over decades, invested in new technology to simplify and improve production processes and enhance worker safety without displacing workers. Alvarado Street and Rainbow Grocery are both leaders in using renewable energy and providing access to organic food. And WAGES' cleaning cooperatives worked with nontoxic products to protect their own health well before "green cleaning" was popular (nearly all cleaning coops today do the same). Finally, the Arizmendi Association's "upside-down franchise" model is a compelling innovation that drives a growing family of businesses that offer quality employment for Bay Area communities (see Profile on p. 47).

Community Development

Many studies have documented an explicit connection between cooperatives and community development (Bendick & Egan, 1995; Gordon Nembhard, 2014; Zeuli & Radel, 2005; Erdal, 2012 *cited in* Novkovic & Gordon Nembhard, 2017[9]). In a 1995 paper, economists Marc Bendick and Mary Lou Egan looked at the contributions of 20 worker cooperatives and found that "worker ownership and participation enhanced cooperatives' ability to generate quality employment for people in the community but outside the economic mainstream" (Tak, 2017, describing work of Bendick & Egan).[10]

Coop scholar Jessica Gordon Nembhard has written extensively on the social benefits of cooperatives, specifically for low-income communities and people of color. She highlights the ability of coops to help bridge the racial wealth gap and shows that cooperative businesses, coop housing, and credit unions can diversify assets and enhance family stability for low-income people and people of color.

[9]A study of three towns in the Emilia-Romagna region of Northern Italy generated compelling data showing a high correlation between employee ownership and other indicators of well-being. The town with the highest percentage of people employed in worker cooperatives scored higher in seventeen of nineteen indices measured, in five broad categories: health, education, crime, social participation, and perception of their social environment (Erdal, 2012, *cited in* Novkovic & Gordon Nembhard, 2017).

[10]The worker coops that Bendick and Egan studied also provided social services, either directly or through referrals, as many coops do. This is another way that coops contribute to worker well-being and community development.

California worker cooperatives and coop developers are active in community development. For example, the California Center for Cooperative Development (CCCD) helped launch cleaning, food service, and home care worker cooperatives to empower marginalized communities. CCCD has also supported the development of worker coop farms to maintain California's rich agricultural industry in the face of challenges such as land value inflation and an aging generation of farmers.

Will Scott, Jr. of African American Farmers of California speaks with Mandela Grocery's Andrea Talley

Mandela Grocery Cooperative (MGC) supports health and development in its Oakland community in numerous ways. Well beyond its day-to-day role of sourcing and selling healthy food in what was previously a food desert, MGC teaches nutrition classes in West Oakland, buys from Black farmers and other local businesses, and is supporting the launch of a new grocery cooperative in East Oakland (Dubb, 2019).

Civic Engagement

Because most people spend the majority of their time working, the practice of democracy in the workplace provides valuable training that workers then bring to their communities. Blake Jones, co-founder and CEO of Namasté Solar, a large coop that operates in Colorado, California, and New York, stated "Cooperatives have the potential to be fantastic training grounds for great citizens" (Abell, 2014).

Though this issue has not been well studied, evidence suggests that workers in employee-owned companies are more civically engaged. In a large 2017 survey of worker cooperatives, respondents had higher rates of volunteerism than the general population, with 46% of worker-owners volunteering compared to 25-30% of the general population (Schlachter, 2017 and Schlachter, 2019).

Citing the plywood coops mentioned above and several others still thriving today, Gordon Nembhard argues that cooperatives enhance civic engagement through member leadership development and simply by setting, and living up to, the expectation of institutional transparency. When they experience open-book management and democratic governance in their cooperatives, members come to expect the same accountability in the public arena. Childspace, CHCA, and the Federation of Southern Cooperatives are examples of cooperatives whose members (primarily people of color) have been leaders not only in the coop movement but also in community programs and advocacy efforts (Gordon Nembhard, 2004).

Race and Gender Equity

Anecdotal and research-based evidence suggests that employee ownership can counter inequality across gender and racial lines. Cooperatives in the hospitality, house cleaning and home care industries, for example, have increased the power and financial stability of women, particularly women of color, in economic sectors where workers' rights are barely protected.

Being part of cooperatives has helped them gain autonomy and leadership in their workplaces, families, and communities.

Rainbow Grocery, with a diverse workforce throughout its 40 years, and Mandela Grocery Coop, whose worker-owners are almost all Black, are well-known examples of coops empowering women leaders and workers of under-represented races, ethnicities, and identities in another low-wage industry. Employee ownership transitions can also empower workers of color by transferring ownership from a white founder to a racially diverse workforce, as was the case with Niles Pie Company.

SECTION 4:
HOW DO WORKER COOPERATIVES GET CREATED?
Models and Pathways

Worker coops originate either as startups (new businesses) or through the conversion of existing businesses to worker cooperatives. Within these paradigms, the process may be driven by a group of workers, a business owner, or a cooperative developer. We discuss each of these pathways below.

Startups: Growing Worker Cooperatives from the Ground Up

Generally, new businesses launched as worker cooperatives follow one of two paths: a group of people decides to start a business together to meet a community need or develop a shared business vision; or a cooperative developer starts a business to meet a community need, such as quality jobs, usually in communities of color, rural areas, or other low-income communities. The latter is a community economic development strategy that is showing promise in terms of job creation and increased financial security for workers and families.

Worker-Initiated Startups

Many worker cooperatives are initiated by workers who have a shared desire to make the world a better place, whether through a business structure that promotes equality and self-determination, through the products or services they sell, or both. Often these cooperatives are small, focused on the needs of the workers and/or a shared social or environmental mission. California examples include Biofuel Oasis, Pedal Express, Tech Collective, Your SCRUF Pet Care Collective, Flying V Farm, and many others.

Spinoffs

A promising but rarely used worker-initiated strategy is to spin a new business off from a successful worker cooperative or another business. Oakland's Design Action Collective, for example, spun out of the design department of Inkworks, a successful worker coop that was struggling with massive changes in the printing sector. As one of Design Action's co-founders tells it:

> *The founding members' combined experience at Inkworks (over a decade) proved to be a key asset. We were able to draw on the wisdom of our mentors as we charted new paths.... In our spinoff, we were able to circumvent many unbillable hours that go into learning a trade, researching a business plan, developing policies and procedures that anticipate a broad range of scenarios, testing one's business instincts, and building a client base.*

Though these coops often start small, some have grown into larger enterprises. California's two largest worker cooperatives were also worker-initiated: Rainbow Grocery grew out of the People's Food System of the 1970s, and now employs 225 people; Alvarado Street Bakery, with 83 employees today, initially grew by selling organic bread to food cooperatives.

A worker-initiated cooperative may engage a coop developer to provide training and technical assistance or its founders may participate in a "coop academy" or similar training program for startups. The developer acts as an outside consultant, taking direction from the worker leadership, or provides training and connections. This is a different—and less central—role than when a cooperative development organization leads the launch and early growth of a new business, as discussed below.

Startups Initiated by Coop Developers

This model has been the driver of many highly successful worker coops benefitting low-income workers. In this approach, the coop developer makes the investment and garners the expertise to start and grow the business, bringing in worker-owners and expanding leadership of the enterprise over time. The developer essentially plays the role of the entrepreneur: leading the startup, fulfilling key management roles over several years, training workers, and, sometimes, retaining substantial control and responsibility for outcomes until key sustainability milestones have been achieved. When cooperative developers lead an initiative, the goal is to achieve community economic development outcomes: to create quality jobs for low-wage workers, to build family and community assets, and to reduce poverty. Power dynamics between a coop developer and worker-owners can be complex and must be handled with great integrity and care.

This co-founder concludes that "based on our experience, existing cooperatives should consider the spinoff model as a means to grow the cooperative movement" (Nagara, 2009).

The founders of Oakland's Your SCRUF Pet Care Collective had worked together at a company where they felt undervalued. As their website states, "all three founding members of SCRUF were coworkers at a dog daycare in Oakland, and through that experience we recognized a need ... for sustainable jobs for pet care providers." While not a literal spinoff, SCRUF's example, like Design Action's, shows the benefits of industry experience and strong working relationships when workers start cooperatives on their own.

Two of SCRUF's founders with the author, Hilary Abell (pictured left)

The examples of many successful worker coops initiated by coop developers (see sidebar, p.26) illustrate the crucial skills, experience, and strategies needed to build cooperative businesses that create sustainable high-quality jobs and strengthen the economic well-being of workers, their families, and communities. These include:

- **Business expertise** (whether experience, natural instincts, or both)
- **Entrepreneurial leadership,** including the grit to get new businesses through the danger zone (50% of startups fail within 5 years) and the drive to grow them into profitable job-creating enterprises

• **A talent for training and coaching,** including helping workers build capacity to govern the business over time

• **A nuanced understanding of democratic governance** and participatory management and how to practice them in an operating business and in a coop

• **Access to patient growth capital,** whether grants, debt, or equity (often grant funding to sustain the developer's role is the most critical)

• **An industry- or sector-specific growth strategy,** or another way to reduce the learning curve and mitigate the challenges that new businesses face

• **Deep respect for workers** and ability to build and maintain trust amidst complex relationship, power, and business dynamics

Many aspiring coop developers, and those who support them, underestimate the effort, diverse skills, and resources needed to start and grow a profitable cooperative business. Some assume that a low-touch model—focused primarily on training in cooperative principles and methods and sometimes including business fundamentals—will be enough to get a business off the ground and prepared to grow into a coop that generates financial gains for its members. As with other community economic development efforts, greater investment in cooperative development would create deeper and longer-lasting impact for workers and community members.

In our fall 2020 survey of California worker cooperatives, 59% of respondents cited support from cooperative developers as crucial to their success.

Conversions: Giving Workers Ownership Over Already-Proven Businesses

Business startups are challenging for worker coops in the same way as they are for conventional businesses. Some never fully get off the ground, and many close within a few years. Among those that endure, many generate supplemental income for their owners, but those that create jobs, especially family-sustaining jobs,

Startups Initiated by Coop Developers: Examples from Around the U.S. and California

Developer-initiated worker cooperatives can generate strong economic development outcomes, as illustrated by the origin stories of many successful worker coops in low-wage industries. New York City's Community Service Society launched Cooperative Home Care Associates, today the largest worker coop in the United States with approximately 2,300 employees, most of them Latina and Black women. In Brooklyn, the Center for Family Life has started 15 successful coops with immigrant workers since 2006. And, in Western North Carolina, the Center for Participatory Change initiated Opportunity Threads, an exemplary worker coop of primarily immigrant workers that has led the formation of a textile industry revitalization effort known as the Carolina Textile District.

In California, the nonprofit coop developer WAGES started six worker coops with Mexican and Central American immigrant women between 1996 and 2010, generating critical lessons that have informed cooperative initiatives around the country. Three of these coops are still thriving today: Emma's Eco-Clean in Redwood City, now 21 years old with 27 worker-owners, Home Green Home Natural Cleaning in San Francisco, and Green and Clean Professional Housecleaning in Concord, both now 12 years old. WAGES' unpublished impact studies documented the profound effects of its high-touch development model in terms of job quality, pay and benefits, and asset building.

Mandela Grocery Cooperative, "born out of the desire to improve access to healthy food and business ownership for residents are less common than many people think. These facts, coupled with demographic trends that create immense opportunity, have led coop advocates to a different strategy to grow the cooperative economy—converting mature businesses into worker cooperatives.

Worker cooperative conversions are most often initiated by business owners who are ready to sell their company, either to facilitate their own exit or to take the business to its next level of impact. These processes are usually facilitated by coop developers or other professional service providers who make owners aware of this possibility and provide technical assistance to transfer ownership to the company's employees. Additionally, conversions are sometimes initiated by workers who attempt to save a business that is bankrupt or shutting down due to owner negligence or widespread economic crisis. Finally, cooperatives or other entities may acquire conventional businesses through traditional M&A transactions or innovative acquisition strategies and then convert them to worker ownership.

Members of Adams & Chittenden Scientific Glass Cooperative meet with Shared Capital and Project Equity

developer-initiated startups, continued

in West Oakland," as its website says, has deep community roots. A nonprofit now known as Mandela Partners played a leading role in its launch and early years. The coop is now a thriving independent enterprise with 11 employees, including nine worker-owners. It continues to inspire Black cooperators and people working to address food deserts across the country and has been a critical support to its West Oakland neighborhood throughout the COVID-19 crisis.[12]

The Arizmendi Association of Cooperatives is another Bay Area cooperative developer. While most famous for its cooperative bakeries, this one-of-a-kind network has bootstrapped the creation of some 200 jobs in eight worker cooperatives now spanning four industries. Arizmendi is unique among these examples as the only developer that is not a cooperative and not a charitable nonprofit.

See Worker Coop Profiles to learn more about the impact of developer-supported worker coops including Arizmendi 9th Ave. (started by the Arizmendi Association), Yolo Eco-Clean (a startup supported by the California Center for Cooperative Development), and California Solar Electric (a conversion supported by Project Equity).

Owner-Initiated Transitions

Many of today's most successful worker coops were originally owned in a conventional format by one or two people. Eventually, the owner(s) decided it was time to sell—but wanted to maintain their legacy. Finding a buyer is always challenging, but finding one willing to keep a business in the same location, with the same workforce, is rare. Selling a company to the employees who have the knowledge and experience to continue it into the future saves jobs and keeps businesses rooted in their communities.[13]

[12] In a 2020 interview, Mandela Grocery Coop's Andrea Talley spoke to how the coop has supported its community during the pandemic. See https://project-equity.org/interviews/mandela-grocery-coop/.

[13] An employee buyout may also take the form of an ESOP. In fact, the majority of ESOPs are initiated in ownership succession situations. By selling to employees through an ESOP, business owners not only protect their legacies but often have the option to defer payment of capital gains taxes through the IRS' 1042 Rollover provision. In theory, worker coops can also take advantage of this provision, but they rarely do. The restrictions, complexity, and resulting high cost of the 1042 Rollover can sometimes outweigh its benefits for smaller businesses.

An estimated 30-50% of worker coops, both across the country and in California, formed when a business owner sold the company to its employees. Examples of California worker cooperatives that resulted from the conversion of a conventionally owned business include:

- **A Slice of New York** (Santa Clara and Sunnyvale; business launched in 2006 and became a coop in 2017)
- **Adams & Chittenden Scientific Glass** (Berkeley; business launched in 1993 and became a coop in 2019)
- **California Solar Electric** (Grass Valley; business launched in 2000 and became a coop in 2019)
- **The Cheese Board Collective** (Berkeley; business launched in 1967 and became a coop in 1995)
- **Restif Cleaning** (Samoa, CA; business launched in 1983 and became a coop in 1990)
- **Sun Light & Power** (Berkeley; business launched in 1976 and became a coop/ESOP hybrid in 2018)

Today, 359,000 California business owners employing nearly 3.9 million workers are approaching retirement, many with no succession plan. Most will not be able to pass the business on to a family member or find a local buyer. And most are also unaware of the option of selling to employees. As Project Equity's research has shown, expanding resources for business outreach and high-quality transition assistance could stave off a massive wave of business closures—and spur the development of a more equitable shared-ownership economy.

Project Equity's Business Transitions Program

Project Equity is a national leader in business transitions to employee ownership. It educates economic development leaders, business owners, and their trusted advisors on employee ownership succession and supports the transition process from feasibility to two years post-conversion. The nonprofit has conducted feasibility assessments for dozens of California small businesses to help them assess whether converting to a worker cooperative is a good fit for the owner's and employees' goals, and it has helped many companies carry out the transition.

In its Business Transitions Program, Project Equity supports a transition team comprising the selling owner and a small group of employees to design the cooperative structure, negotiate a sale agreement, secure financing, and ensure a successful management transition. The process generally takes 6-12 months from the time feasibility has been confirmed and the owner decides to proceed with the transition. Through its two capital programs, Accelerate Employee Ownership (a partnership with Shared Capital Cooperative seeded by the Quality Jobs Fund) and the Employee Ownership Catalyst Fund, Project Equity and its partners can also finance the sale. Post-transition, Project Equity's Thrive Program focuses on coaching worker-owners serving on the boards of directors and building strong member engagement processes, financial literacy, and an ownership culture.

Worker-Initiated Conversions

In crisis circumstances, workers sometimes create coops to turn lemons to lemonade. One of this century's iconic examples is the recovered factories movement in Argentina, in which workers took over hundreds of businesses after owners abandoned them following Argentina's 2001 economic crisis (Vieta, 2021). Many of these coops continue to thrive, creating jobs and community wealth while also providing a range of needed social supports such as education, day care, healthcare, and so on.

This model is uncommon in the United States but not unheard of. New Era Windows Cooperative of Chicago, IL, for example, was formed by workers who twice occupied their factory after the owners shut it down. With the support of their union and The Working World, a non-extractive financing organization that supported Argentina's recovered factories, the workers organized and purchased a part of the business, opening their own window factory in 2013.

Acquisitions

Mature cooperatives or other entities can also convert conventional businesses to employee ownership through an acquisition strategy. Three examples illustrate one of the latest trends in cooperative development.

- **The Evergreen Cooperative Corporation** has expanded its mission to preserve quality jobs in northeastern Ohio by launching the Fund for Employee Ownership. This investment fund acquires businesses from retiring owners and converts acquired firms to cooperatives. Evergreen then joins the board of the newly acquired firm and provides expertise to help it develop a healthy ownership culture and a viable long-term business strategy. In the last two years, Evergreen has acquired four businesses employing 90 workers who are now owners of their enterprises.
- **Obran Cooperative** is pioneering a model based on the traditional conglomerate; it has multiple subsidiaries and is growing by acquiring other companies. Workers at the subsidiaries become members of the parent cooperative and will benefit from profit sharing and an array of services as Obran grows.
- **The Main Street Phoenix Project** launched in response to the pandemic's decimation of the restaurant industry, will acquire businesses, then transition them to worker ownership.

In its Fall 2020 survey, Project Equity asked California worker cooperative leaders what factors had contributed to their success in becoming a cooperative. Respondents answered as follows:

- **Support from other cooperatives:** 65%
- **Support from coop developers:** 59%
- **Support from other technical assistance providers or business advisors:** 51%
- **Outside financing** (e.g., an external loan or non-member equity): 31%

Respondents also cited the hard work of founding members and community support as key to their success.

SECTION 5:
HOW DO WE EXPAND THE WORKER COOP LANDSCAPE?
Current Ecosystem and Opportunities

Crucial to the growth of any business model or sector is a robust ecosystem—a community of professional service providers, financial institutions that provide capital, supportive public policies, and more. Because worker cooperatives are unfamiliar to many and viewed as marginal by some, they are not given the tools and support that can help them proliferate and grow.

California's worker cooperative ecosystem has a strong foundation but is not yet a mature ecosystem. Throughout the state's long history with worker cooperatives, coop developers and coops themselves have tended to create their own networks and communities, remaining largely outside of the mainstream business ecosystem. To realize the potential of worker cooperatives to benefit California's workers and its economy, an ecosystem approach is needed.

To describe the strengths and opportunities in California's coop ecosystem, we draw on a model first described in *The Cooperative Growth Ecosystem: Inclusive Economic Development in Action,* a publication of the Democracy at Work Institute and Project Equity (Hoover & Abell, 2016). Our discussion looks at the three major functions of a robust cooperative ecosystem—Building Blocks, Accelerators, and Environmental Factors—along with the organizations and institutions that are playing these roles (or could) in California.

Building Blocks Provide the Foundation

Four essential building blocks are the foundation of the entrepreneurial ecosystem that supports the development and growth of worker cooperatives: members' skills and capacity, technical assistance, growth-oriented cooperative developers, and financing.

As discussed below, the value of inspiration and advice from worker cooperatives themselves cannot be overstated (we hear this often from people seeking to launch a worker cooperative and from business owners considering transitioning their companies). But most people will also need technical assistance and financing, and many will spare themselves much frustration and enhance their chances of success by working with experienced cooperative developers. This is especially true if a proposed worker coop aims to create quality jobs and robust business opportunities for workers who face barriers to employment, have limited formal education, or lack experience in business, management, or governance.

Members' Skills and Capacity

The many successful worker coops in California help spur the continued growth of cooperatives (see "A Quarter Century of Cooperative Growth in the San Francisco Bay Area," p. 33). They demonstrate the viability of the cooperative model for small businesses, and a community of skilled worker-owners freely offers advice, moral support, mentorship and often sample documents to those seeking to start, grow, or transition to a worker cooperative. The skill set that has been developed over decades of cooperative development, particularly in the Bay Area, is one of the greatest strengths of California's ecosystem. Among the many worker coops that widely share their experience are Rainbow Grocery, Mandela Grocery Coop, A Slice of New York, Niles Pie Company, and the Arizmendi Association of Cooperatives.

The peer learning that has long characterized California's worker cooperative community is supported institutionally by CCCD, the U.S. Federation of Worker Cooperatives and the Network of Bay Area Worker Cooperatives, which was formed by Bay Area worker coops specifically to promote sharing of best practices. These organizations facilitate peer exchanges through professional conferences, workshops, and other forums. In addition, SELC, Project Equity, and DAWI regularly connect their clients and stakeholders to coop leaders. Local organizations throughout California (see p. 40) also do community education, including peer-to-peer learning.

Technical Assistance

This term covers a wide range of services and professional service providers, including lawyers, CPAs and other financial advisors, nonprofits that provide a variety of services to small businesses, and others. SELC has helped to strengthen this element of the cooperative ecosystem through the legal services of its staff attorneys, its fellows program, its catalog of CPAs and financial advisors, and its education and advocacy work. Several California law firms also support cooperatives, and one, Tuttle Law Group, is dedicated to the coop sector.

Growth-Oriented Coop Developers

Cooperative developers take a variety of approaches and can create coops through startups or conversions. Those that have succeeded in building profitable cooperative businesses that create full-time, family-sustaining jobs have learned that creating that kind of economic benefit requires intensive training, technical assistance, and support over multiple years–what we call a high-touch or medium-touch coop development model. Growth-oriented coop development usually also includes a strategic orientation toward replicating successful models, developing expertise in specific sectors in order to provide strategic business advice, and the ability to facilitate financing and market connections. Business coaching and support for building an ownership culture are also crucial elements of success.

California is home to a number of organizations that carry out growth-oriented cooperative development. Among those that have succeeded in creating sustainable, job-creating worker coops are: the Arizmendi Association of Cooperatives, the California Center for Cooperative Development (CCCD), Project Equity, and the Sustainable Economies Law Center. In addition, a number of other nonprofits do community education around cooperatives and provide lighter touch coop development services (see "Coop Education in California Communities," p. 40).

Aaron & Monica Rocchino of The Local Butcher Shop in Berkeley transitioned their company to a worker coop with help from Project Equity

Financing

Patient capital, whether in the form of loans, equity, or grants, is essential to the formation and growth of worker cooperatives and to their ability to address income and wealth inequality and promote racial equity. Debt financing is often inaccessible to cooperatives, in part because, as collectively owned businesses, cooperatives cannot satisfy lenders' requirements for a "personal guarantee." Loans can effectively be underwitten, however, without these unnecessary requirements.

California is fortunate to have a number of lending institutions and grantmakers that have provided loans to new and mature cooperatives and businesses transitioning to worker coops, or given grants to support coop development and technical assistance (see below, "Funding Worker Cooperatives and Coop Development in California").

While making capital more accessible is critical to creating a robust ecosystem, capital "access" will not translate to real impact if understanding of and demand for worker cooperatives does not also increase. As capital providers would say, "We need deal flow." Philanthropic and public funding is needed to raise awareness and attract business owners, aspiring entrepreneurs, and their trusted advisors to employee ownership. Grants are also critical funding sources for nonprofit coop developers, whose work is key to achieving economic development goals.

Funding Worker Cooperatives and Coop Development in California

California is fortunate to have a number of financial institutions and grantmakers that have experience with worker cooperatives. While some traditional financial institutions (even some CDFIs) and philanthropic organizations are reluctant to support cooperatives, the following California-based organizations have done so:

- **CDFI lenders,** including Community Vision, Beneficial State Bank, and Pacific Community Ventures, offer loans to cooperatives.

- **Accelerate Employee Ownership,** a joint initiative of Project Equity and Shared Capital Cooperative seeded by the Quality Jobs Fund, and the Employee Ownership Catalyst Fund, a partnership between Project Equity and Mission Driven Finance, both finance employee buyouts throughout California. Both funds explicitly aim to co-lend with capital providers new to worker ownership to help them gain experience and "grow the pie" of available capital.

- **Local loan funds,** such as those established by the cities of Berkeley and Richmond, support local small businesses, including worker coops; SEED Commons, a national network of locally rooted non-extractive loan funds, currently supports four local funds in California.

- **Grantmakers,** including San Francisco Foundation, Citi Community Development, Y&H Soda Foundation, Catholic Campaign for Human Development, California Wellness Foundation, James Irvine Foundation, and Restorative Economies Fund (Kataly Foundation), have supported projects to advance worker cooperatives in California.

Some of these pioneering funders and financial institutions have made programmatic commitments to cooperatives and others have made initial investments only. They can all help to demystify worker coops for their peers and catalyze greater investment across the state.

A Quarter Century of Cooperative Growth in the San Francisco Bay Area

The recent history of worker cooperatives in the Bay Area illustrates how the cooperative landscape changes over time. From 1995 to the present, the Bay Area has become home to more worker cooperative businesses than any region outside of New York City. This has been both catalyst for—and catalyzed by—a robust infrastructure of support, or ecosystem.

Toto Chittharath, worker-owner at Niles Pie

1995: Worker cooperatives—most of them formed in the 1970s and early 1980s—are thriving. The cooperatives, concentrated natural foods and media/cultural production, are distinctly countercultural: alternative, left-leaning, utopian. In this tight-knit community, worker coops informally lend to each other, workers move between cooperatives for jobs, and a worker coop business network, the Network of Bay Area Worker Cooperatives (NoBAWC), emerges. Growth is modest, organic, and largely self-financed. A study group is formed to understand and replicate the Mondragon cooperative model in the Bay Area. A nonprofit organization has just formed to empower low-income women using the cooperative model.

2015: What a difference 20 years make! The 1995 study group formed the Arizmendi Association of Cooperatives, a self-financed cooperative development and support organization structured as a secondary cooperative. Its six member cooperatives now employ more than 120 people, have combined revenues of around $18 million annually, and are well-known local fixtures. They borrow from a local CDFI and have even received tax breaks from cities eager to anchor new development. The new nonprofit became WAGES (Women's Action to Gain Economic Security), the groundbreaking developer of cooperatives whose members are Latina immigrants (see below). These two industry-based initiatives demonstrate the power of concentrating effort and resources in particular sectors.

Existing worker cooperatives have grown, too. Two of the country's largest worker cooperatives—Rainbow Grocery and Alvarado Street Bakery, both started in the 1970s—have combined total revenues of over $100 million and more than 350 worker-owners. Other long-standing cooperatives have spun off new businesses, providing technical assistance, capital, and market access. New worker coops have started in the technology sector, green construction, and food retail.

In 2015, five green housecleaning cooperatives developed by WAGES generate nearly $4 million in combined annual revenue and provide good livelihoods for almost 100 worker-owners. The women's pay and benefits have grown substantially, and studies of their family incomes show 40-80% increases. Other community economic development efforts include worker-owned Mandela Foods Cooperative in West Oakland, a nascent coop incubator and loan fund in Richmond, and Project Equity's Business Transitions program, which helps businesses convert to broad-based employee ownership.

The infrastructure of support has also grown. The Sustainable Economies Law Center (SELC) and the Green Collar Communities Clinic of the East Bay Community Law Center, with attorneys mentored by existing coop lawyers, play an active role advising startup cooperatives. Cutting Edge Capital pioneers the Direct Public Offering, and cooperatives begin to use it to raise community capital. The Democracy at Work Institute begins field-building efforts. And a nascent coalition successfully passes a California law, AB 816, establishing a specific legal form for worker cooperatives for the first time.

2020: The Bay Area worker coop movement has hit its stride. The Arizmendi Association has diversified into new industries and, during the COVID-19 pandemic, sustains nearly 175 jobs. Since 2015, at least a dozen Bay Area businesses have transitioned to worker cooperatives when their long-time owners sold to their employees. Three Bay Area cities (Berkeley, San Francisco, and Santa Clara) have established programs to support worker coops, and the momentum is growing in Los Angeles, Long Beach, Santa Cruz, Stockton, Sacramento, and Humboldt County. To further build ecosystem capacity, SELC is training attorneys across the state to provide legal support and education to worker cooperatives (with pro bono services provided through philanthropic support). And a number of Bay Area-based organizations formally join forces in the wake of the first COVID-19 shelter-in-place order to create a new statewide advocacy coalition: Worker-Owned Recovery California (WORC).

Accelerators are Key to Taking Worker Cooperatives to Scale

In an entrepreneurial ecosystem, several factors can accelerate business growth. Chief among these are supportive policy and regulatory environments, government engagement, and strategic connections to markets.

Policy and Regulatory Environment

Like most U.S. states, California has not had a particularly advantageous policy environment for worker cooperatives, but this is beginning to change. By defining worker cooperatives, AB 816 (see p. 5) has made it easier to form and operate these businesses. But legal and regulatory barriers continue to exist (see sidebar, "Legal and Regulatory Barriers to Worker Cooperative Growth"). In 2019, several organizations, including some that worked on AB 816, began meeting to discuss opportunities to engage the state in support of worker cooperatives and employee ownership more broadly. Since April 2020, the [Worker-Owned Recovery California] coalition has been educating state agencies and advocating for funding, technical assistance, and other support for business transitions to worker ownership as a way to preserve small businesses statewide.

Some common practices of financial and philanthropic institutions impede worker cooperative growth. Personal guarantees, for example, are a standard requirement for banks and many CDFIs but are largely unnecessary, as evidenced by the high success rate of loans to cooperatives and nonprofits (also done without personal guarantees), and by the growing interest in other forms of underwriting. In May 2021, Senator John Hickenlooper (D-CO) introduced the Capital for Cooperatives Act to level the playing field for coops to equitably access financing from the Small Business Administration.

Government Engagement

By integrating employee ownership into economic development agendas and dedicating funding to employee ownership initiatives, state and local governments can raise the profile of this important economic resiliency strategy, make technical assistance and financing available, and help build demand for employee ownership within the private sector. One exciting trend is the growing interest among California

Legal and Regulatory Barriers to Worker Cooperative Growth

Most policymakers, legislative counsels, and government leaders are unfamiliar with cooperative businesses and do not account for their structure when drafting legislation and regulations. As a result, laws and regulations about labor, employment, and securities are generally silent on, and therefore ambiguous in their treatment of, worker cooperatives. This creates uncertainty for coops and often increased costs for legal fees and technical assistance that other businesses do not incur.

For example, in 2017, the California Assembly passed AB 2883, which was framed as an effort to clean up ambiguities in the code around workers compensation. It failed, however, to take cooperative corporations into account, resulting in increased burdens for worker cooperatives. Many were hit with enormous bills that cost worker-owners as much as 20% of their income. One coop's workers compensation rates soared to 40% of wages.

The new statute unfairly disadvantages worker cooperatives and other employee-owned companies, which perform better than conventional businesses on worker health and safety and are known to file fewer workers compensation claims. As the Sustainable Economies Law Center explains, "Prior to AB 2883, worker-owners had a choice in how this money was spent, sometimes using it for higher wages … or to provide comprehensive medical insurance. AB 2883 effectively takes this decision-making power away from worker-owners" in an attempt to fix a problem that was not there (Tsui, 2017).

cities and counties in integrating worker cooperatives into their economic development and COVID-19 recovery strategies.

Ten local governments in California have embraced the role that worker cooperative transitions can play in retaining small businesses. Some have made proclamations or passed city council resolutions to raise awareness and indicate support, others have launched multi-year initiatives, and some have done both. Several initiatives are funded from the local government's own coffers, and others have outside grant support (see sidebar, "California Cities and Counties Promoting Worker Ownership").

In addition to retaining businesses and promoting quality jobs, these public investments in employee ownership help to legitimize worker cooperatives and other forms of broad-based employee ownership, pointing the way to more substantial public sector investment that will be important for scale in the long run.

The state also has an important role to play in supporting the development of the cooperative ecosystem. Awareness of worker coops in California state government is limited, but the WORC coalition and its members are actively changing that. As one example, WORC has held dozens of meetings with state agency staff, legislators' offices, and committee consultants since the summer of 2020. In May 2021, the California Senate Budget Subcommittee 4 heard testimony about the coalition's proposal to dedicate $36.5 million of state funds toward loan guarantees and grant incentives to support small businesses in transitioning to cooperatives and other forms of broad-based employee ownership.

In recent years, worker cooperatives have also garnered the attention of the Office of the Small Business Advocate, which oversees Small Business Development Centers (SBDCs) throughout the state (see "SBDCs and Employee Ownership", p. 37); the Governor's Future of Work Commission; the Assembly Committee on Labor and Employment; and the Labor and Workforce Development Agency (LWDA), whose Social Entrepreneurs for Economic Development (SEED) Initiative funded a $1 million worker cooperative

California Cities and Counties Promoting Worker Ownership

Resolutions. The cities of Oakland (2015), Berkeley (2016), Santa Ana (2017), Santa Cruz (2019), and Santa Clara (2020) have all passed resolutions in support of worker cooperatives. Such resolutions are an easy step any government can take to show its support for worker-owned businesses.

Initiatives. Berkeley's initiative, the oldest in the state, is a partnership with Project Equity and the Sustainable Economies Law Center. The effort has helped seven companies access technical assistance for worker coop transitions. One, Adams & Chittenden Scientific Glass, completed its transition in 2019, and four Berkeley companies are participating in Project Equity's Business Transition Program (as of May 2021) and will become worker coops in the year ahead.

Project Equity and SELC with Berkeley's mayor and city council members, 2019

The City of Berkeley also added "Co-op Corp" as an "ownership type" on its business license form. This groundbreaking move enables the city to track the number of cooperatives doing business in Berkeley and gives cooperatives more visibility.

demonstration project. LWDA oversees the state's Workforce Development Boards (WDBs), which can use federal funding for Layoff Aversion, including employee ownership feasibility studies. Statewide systems like the SBDC and WDB systems could play a major role in spreading cooperative and employee-owned business models around the state.

CA cities and counties, continued

San Francisco launched its initiative through a 2019 RFP for business succession planning that encouraged employee ownership feasibility studies. It has deepened its engagement with worker cooperatives and employee ownership programs in several ways since, and included worker coops in its 2021 Office of Economic and Workforce Development grant program.

In Southern California, Long Beach, Los Angeles County, and LA City Council District 9 have made commitments in the past two years to advance employee ownership transitions with a range of strategies. The Long Beach effort represents a compelling collaboration between philanthropy (Citi Community Development), government (the city of Long Beach Economic Development Department) and California nonprofits (Project Equity and the Local Initiatives Support Corporation, LISC-LA).

The City of Sacramento issued an economic recovery RFQ in 2020 and has begun connecting interested companies with Project Equity as an approved employee ownership service provider.

SBDCs and Employee Ownership

Small Business Development Centers (SBDCs) provide an additional vehicle for the state to promote employee ownership. SBDCs exist in every county across the state and are jointly funded by the federal Small Business Administration (SBA) and the state's Office of the Small Business Advocate (CalOSBA, a division of the Governor's Office of Business and Economic Development, aka GO-Biz).

SBDCs are mandated under the federal Main Street Employee Ownership Act of 2018 to offer their services to cooperative businesses, but they have lacked the dedicated funding necessary to incorporate this new service area. Under Isabella Casillas-Guzman (now Administrator of the SBA in Washington, DC), CalOSBA was proactive in overcoming this barrier, encouraging SBDCs around the state to apply for funding to support businesses in exploring employee ownership. A few pioneers have done so and are now laying the groundwork for other SBDCs, which will be able to build on the examples and learnings from these early adopters.

Government engagement is beginning to shift the playing field for California's worker cooperatives, boosting visibility, funding, and education. Because lack of awareness remains one of the biggest barriers to growth, local and state governments should prioritize educating staff as well as the business community about the strengths of worker cooperatives and the important role that all forms of broad-based employee ownership can play in business retention and in building a more equitable economy.

Connections to Market

Like all businesses, worker coops succeed based on their ability to create quality products or services and get them to satisfied customers at a price point that works for both parties. Beyond these fundamentals, however, many companies accelerate their growth through supported access to markets. This can happen through supply chain relationships, strategic early customers or reference clients, major mission-aligned clients, anchor institution and government procurement, or community benefits agreements.

Multiple connection-to-market initiatives across the country have helped worker cooperatives grow into profitable businesses. For example, Up & Go is a consumer-facing shared marketing platform that has been critical to the growth of the Brightly® cleaning cooperatives in New York City. The Evergreen Cooperative initiative in Cleveland pioneered anchor institution procurement, a business-to-business approach to securing clients for their start-up cooperatives. Finally, BronXchange is a project of the Bronx Cooperative Development Initiative that serves as an intermediary thoughtfully connecting small businesses to anchor institution procurement contracts by bundling companies together and/or disaggregating large contracts into smaller ones.

Most worker cooperatives, and startups more generally, are too small to fulfill anchor institutions' large contracts. Strategies that address this challenge head on, such as BronXchange and a new conversions-focused initiative by Kaiser Permanente are key to making anchor institution procurement an accelerator for worker cooperative growth.

Connection-to-market strategies are new for California, but a pilot project that launched in January 2021 shows their potential. Kaiser Permanente (KP) is partnering with Project Equity and Obran Cooperative to educate KP's supplier companies about employee ownership and encourage them to consider it as a succession strategy. If these successful businesses were to become employee-owned, the success of their transitions, and their ability to inspire others to consider employee ownership, would be bolstered by their involvement in a major anchor institution's supply chain. The partners hope that this pilot, if successful, will expand to a full-fledged initiative within Kaiser Permanente and inspire other health care anchor institutions to follow suit.

As cooperative development and advocacy continue to grow in California, there will be opportunities for more innovation in helping cooperatives connect to key market opportunities. AlliedUP is demonstrating how to use cooperative ownership to create better opportunities for contract workers and for the healthcare providers who rely on them. Innovations such as BronXchange provide models to leverage the buying capacity of anchor institutions and local and state governments. Pilots like Kaiser Permanente's outreach to suppliers offer new avenues for business conversions that could result in a larger cooperative economy.

Environmental Factors Can Bring Worker Cooperatives to the Mainstream

The environmental elements of the ecosystem help to shift mindsets and narratives. By normalizing cooperatives and increasing their visibility, they set the stage for growth over the long term. Environmental elements of the ecosystem include:

Values-Driven Businesses

When ESOPs, certified B-Corps, benefit corporations, social enterprises, and other businesses dedicated to social equity or environmental sustainability are prevalent in communities, worker cooperatives can be a natural fit.

California has long been a leader in values-driven business, and today is home to nearly 300 certified B-Corporations (more than 20% of the national total) and approximately 750 private companies with ESOPs (more than 10% of the national total). This aspect of the cooperative ecosystem is strengthened by the many California-based organizations that have played leadership roles in the socially responsible business movement, including Social Venture Circle, BSR, and the National Center for Employee Ownership.

Cultural Acceptance

As the public becomes more familiar with worker cooperatives, common biases and misconceptions dissipate. Despite California's culture of innovation, the presence of cooperatives in the public conversation about housing, economic development, jobs, and business has, until recently, been minimal. Increasing the visibility of the cooperative model and public awareness of its benefits for businesses and community economic development is critically important.

> "As the public becomes more familiar with worker cooperatives, common biases and misconceptions dissipate."

Education

At this time, education and awareness raising largely fall to the California nonprofits that promote worker coops. But the cooperative business model can be normalized, and its uptake increased over time, by integrating it into educational curricula. While cooperative education is limited in California, as elsewhere in the United States, opportunities abound. For example, public high school requirements of three years of social science courses (including one semester of economics) provide ample opportunity for introducing and exploring the cooperative business model.

At the higher education level, a few California colleges and universities do incorporate some cooperative education. University of California (UC) Berkeley has had a student-taught course on cooperatives for many years, Antioch University Los Angeles incorporates worker ownership into an urban sustainability Master's program, and Mission College in Santa Clara is actively developing not-for-credit courses to support worker cooperative transitions. UC Davis and California State University, Chico have cooperative courses in their agricultural economics divisions. The UC Extension program at UC Davis included a Center for Cooperatives from

1999 to 2004[14] and recently added an academic specialist for cooperatives. UC San Diego's Rady School of Business houses the Beyster Institute, which provides education on employee ownership focused on ESOPs. The Beyster Institute's well-established courses and consulting services provide a compelling example of how educational institutions can support employee ownership.

Coop Education in California Communities

To help fill the education gap, grassroots education about cooperatives is growing around the state. A number of community-based initiatives promote worker coops through local advocacy, training and leadership development for community members, and education for startup coops, each with a unique local approach. These include Cooperación Santa Ana, Cooperation Humboldt, Cooperation Richmond, Human Agenda, Los Angeles Union Coop Initiative, L.A. Coop Lab, Prospera, WORCS, and Repaired Nations. These groups are creatively meeting the growing interest in cooperatives among diverse communities, ranging from childcare and community outreach workers in Orange County, to immigrant women across the Bay Area, and to Black and Brown youth in Oakland and Richmond.

The shift toward a more cooperative-friendly environment is already underway in California. With investment in public awareness and cooperative education, our communities would likely embrace cooperative businesses for their job-creation potential, resiliency, and community orientation.

Opportunities to Strengthen the Ecosystem

The opportunity to increase the number of worker cooperatives and their impact on workers and communities has never been greater. Following are observations on where investments in California's support ecosystem for worker cooperatives can have the most impact.

Building Blocks

The foundational building blocks of the cooperative support ecosystem in California are sound but must be strengthened to meet the scale of the need, opportunity, and interest we are seeing today. We have: a vibrant and connected community of existing worker cooperatives; a few growth-oriented coop developers that are using sectoral approaches, replication strategies, and market innovations to create thriving cooperatives that grow good-quality jobs; and a small group of grantmakers and lenders supporting worker coops.

- **A key focus of increased funding** should be to build the capacity and resources of coop developers to engage in proven approaches to developing new cooperative businesses and to transition successful businesses to worker cooperatives.

[14] The closure of the center at UC Davis led to the development of the California Center for Cooperative Development as an independent nonprofit.

- **A more robust ecosystem of seed, growth, and transition capital** is also needed to catalyze worker cooperative growth statewide. Traditional financial institutions and investors need to be better informed about how their capital can be deployed to support worker cooperatives.[15] Existing programs such as the California Infrastructure and Economic Development Bank's loan guarantee program can also be leveraged to unlock additional capital.

Accelerators

Increased efforts to define, advocate for, and implement pro-coop policies and government programs at the local and state levels will significantly accelerate the growth of worker coops.

State-level advocacy to create a more "cooperative friendly" policy environment is growing with the leadership of the WORC coalition. On a local level, Project Equity, the Sustainable Economies Law Center, and the Democracy at Work Institute have all engaged with California localities to design and implement programs to raise awareness of and provide technical assistance for worker coops. As of early 2021, the cities of Berkeley, San Francisco, Long Beach, Santa Clara, and Los Angeles (Council District 9), as well as LA County have active programs supporting worker coops.

Other promising "accelerator" strategies that are underway at the state level include:

- **Building interest and capacity among the statewide network** of SBDCs to support worker cooperatives,
- **Engaging the workforce development system** at the state and local levels, and
- **Early stage connection-to-market strategies,** including AlliedUp, a statewide staffing cooperative with union and anchor institution support, and Kaiser Permanente's pilot project to encourage its supplier companies to transition to employee ownership.

Environmental Factors

To strengthen environmental elements of the ecosystem, awareness raising is the most critical immediate need, with a focus on dispelling common misconceptions about worker cooperatives and normalizing all models of broad-based employee ownership. Emerging strong alliances among diverse types of values-driven businesses and among proponents of various kinds of employee ownership will help amplify pro-cooperative messages. Many organizations within the worker cooperative and ESOP communities now embrace an inclusive approach to education and awareness raising about broad-based employee ownership—a shift from decades past when enthusiasts and practitioners of these distinct approaches to employee ownership operated in parallel universes, rarely interacting. With this "big tent" approach, expanding awareness campaigns and both grassroots and formal education about employee ownership can greatly increase potential for worker cooperatives around California.

[15] Employee Ownership leaders have written several reports to demystify employee ownership for lenders and investors. See *The Lending Opportunity of a Generation* (Gregory et al., 2016), *The Original Community Investment* (Lingane & McShiras, 2017). *Addressing the Risk Capital Gap* (Lingane & McShiras, 2017), and *Guidelines for Equitable Employee Ownership Transitions* (Rose, 2020).

SECTION 6:
RECOMMENDATIONS: HOW CAN WORKER COOPERATIVES CREATE ECONOMIC SECURITY FOR CALIFORNIANS?

As California emerges from the tragedy and loss of 2020 and 2021, there is widespread support for "building back better"—not just a return to "normal" but an effort to create a far more just and equitable economy that centers quality jobs, family-sustaining wages, and opportunities to build assets for the future. Worker cooperatives are well positioned to deliver on these aspirations. The recommendations below offer a roadmap for California to become a leader in building and sustaining worker cooperatives in communities all across the state.

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

1. Conduct awareness campaigns about worker cooperatives and other forms of broad-based employee ownership, with priority focus on retiring business owners.

2. Dispel myths about worker cooperatives among professional service providers who tend to discourage cooperative ownership because of misconceptions.

3. Educate nonprofit technical assistance providers, SBDCs, WDBs, and other organizations and advisors who provide services to businesses.

Prioritize scalable and/or strategic coop development.

1. 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, prioritizing outreach to companies with owners age 55 or older and 20-200 employees.

2. Support and learn from innovations that have the potential to scale, such as staffing cooperatives, mergers & acquisitions with cooperative ownership, and others.

3. 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.

4. 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.

Engage state and local governments to support employee ownership through relevant state programs and public policies that accelerate growth.

1. Implement business retention strategies that encourage broad-based employee ownership, building on efforts in Berkeley, Long Beach, San Francisco, LA (city and county), and Santa Clara.

2. Support statewide engagement of SBDCs with cooperative developers to implement the Main Street Employee Ownership Act of 2018.

3. Embed broad-based employee ownership (including worker coops) into state agency programs for small businesses and workforce development.

4. Improve regulatory frameworks for worker coops in relation to securities, employment law, workers compensation, and lending; encourage lenders to use proven methods of underwriting that do not require personal guarantees.

WHAT IF ... $63 Million for Worker Coops?

We asked ourselves a provocative question: how could California utilize a significant investment in cooperatives, $100 million for example, to address the crises in quality jobs, housing, and childcare? Our "WHAT IF" scenario allocates $63 million to worker cooperatives, $25 million to housing coops, and $12 million to childcare coops.

For worker coops, we would recommend the following investments:

1. **$50 million** to create and grow worker coops around the state through transitions, startup, and growth
    - **$20 million** for transitions, including business outreach, feasibility studies, technical assistance, and post-transition support
    - **$10 million** for coop startups and growth, including pre-development, development, and capacity building for coop developers
    - **$20 million** in capital, including financing transitions, working capital & startup loans, and, potentially, forgivable loans to create "onramps" and matched equity to enhance worker wealth building
2. **$6 million** to support statewide engagement of SBDCs and WDBs with cooperative developers
3. **$7 million** to engage local governments, state agencies, and policymakers

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Worker-owners in front of their store at the Arizmendi Bakery at 9th Avenue, San Francisco

Arizmendi 9th Avenue:

20 years and thriving with the Arizmendi Association

San Francisco, California

It's 6 a.m. in San Francisco. Morning light is just starting to stream in through the eastward-facing windows of the bakery on 9th Avenue. The bakers—who own their bakery and, through it, a larger cooperative association—are rolling dough and prepping pastries. Their spirits are high, in keeping with the sense of camaraderie and unity that has taken root in their democratic workplace. In an hour or so, the first loyal customers will line up to order.

Thriving for 20 years: Arizmendi 9th Avenue

The Arizmendi Bakery on San Francisco's 9th Avenue is a worker-owned cooperative serving the neighborhood's favorite pastries, breads, and pizzas. "Arizmendi 9th Ave," as it is affectionately known, marked its 20-year anniversary in October 2020, and it has a lot to celebrate. The 22 worker-owners have work they love, earn above-market wages, and share in the challenges and benefits of co-ownership. In an industry known for constant turnover, half of the worker-owners have been with the bakery for more than a decade.

The bakery is part of the Arizmendi Association of Cooperatives, founded in 1996 to spark the development of more worker cooperatives in the Bay Area. Supported by Berkeley's famous Cheese Board Collective, which shared its recipes and business model for replication, the association opened its first Arizmendi Bakery in Oakland in 1997 and has since launched four additional bakeries. The association is a cooperative corporation made up of its member cooperatives as well as the Development and Support Collective, which supports existing coops and develops new ones. Each member coop is an independent business owned and managed by its workers.

Sue Lopez, who helped found the bakery on 9th Avenue in 2000, is still a proud worker-owner today. On Mondays when the bakery is closed, Sue devotes eight hours to preparing food in the kitchen. During the rest of the week, she can be found handling customer service at the register, janitorial duties, or administrative work. Sue believes the diversity of tasks helps her and her fellow coop members avoid the physical wear and tear of repetitive manual labor. Rotating jobs also fosters opportunities for worker-owners to interact, collaborate, and become friends.

Though each Arizmendi bakery has unique features, all use a similar operating model in which baking duties are spread equally among workers, and various committees support other core business functions. They also share a common mentorship system and membership process. New hires have an assigned trainer on each shift, then choose someone, usually one of these trainers, to be their "buddy." Consistent interaction with a buddy eases integration into the business and the community of worker-owners. After six months, coop members vote on whether to invite new workers to become owners. Those who are not invited as owners leave the coop, while those that stay must make a financial investment in the business. This "buy-in" can be made over time through payroll deductions, and the amount varies by coop. At Arizmendi 9th Ave., founders paid a buy-in of $5000, with just 10% of that up front, but when the business developed a strong cash position, the buy-in for new members was reduced to $1000.

Hourly pay at 9th Ave. ($28 per hour) is well above market for bakery workers, and benefits are robust. Workers accrue paid time off and are encouraged to take six weeks of vacation throughout the year. The worker-owners also collectively decided to extend healthcare coverage to workers' children. One of this bakery's most remarkable achievements is enhancing its members' housing security in one of the most expensive cities in the country. Six worker-owners have been able to buy a home in San Francisco or nearby.

Replicating Resiliency: Arizmendi Association of Cooperatives

The Arizmendi Association serves as an incubator, a network, and a technical assistance provider for the member cooperatives that own, govern, and finance its operations. This approach to networked, professional cooperative development and back office services has proven to be a successful model for growing and sustaining cooperative businesses.

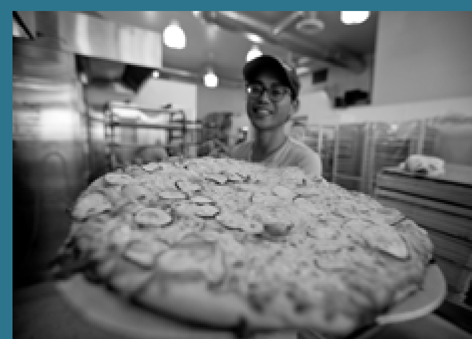
During its first 20 years, the Arizmendi Association focused on replicating cooperative bakeries. By using an upside-down franchise model, the association could launch new coops with the same basic business plan relatively quickly and ensure their success. The association uses what some call a build-and-recruit model: it finds the location for the new business, incorporates the cooperative, secures the capital, and recruits new members, who are trained by peers at the other bakeries.

After the new businesses launch, the association continues to provide an array of legal, financial, educational, and technical assistance services, which are funded through member dues paid by each cooperative. Dues, rather than a fee-for-service model, ensure that new or struggling coops, which are less likely to have extra funds for services, get the help they need. More mature businesses, with less intense needs, continue to benefit from the network's legal, bookkeeping and other services.

The association makes decisions through a Policy Council, on which each member cooperative and the DSC are represented. The Policy Council determines fees and services and makes decisions regarding new businesses. For example, through the Policy Council, the member bakeries helped determine new bakery locations to ensure that a new coop would not impinge on the market of an older one.

In 2016, with six bakeries in operation, the association decided to expand into new industries. It has since launched Root Volume, a landscape design and build cooperative, and Arizmendi Construction, a building and renovation firm in the East Bay.

Individual cooperatives make their own operating decisions. Each coop pays its worker-owners differently depending on its circumstances and its members' philosophy. For example, at Root Volume, the hourly wage is $23-$35/hour based on an individual's experience. By contrast, at the 9th Avenue bakery, everyone earns the same wage, reflecting their inherent sense of equality. In addition to competitive wages, workers also receive benefits and patronage (a proportional share of profits).



Fresh pizzas made daily at Arizmendi Bakery, Valencia Street

A supportive community and a financial backbone to weather the storm

Although the Arizmendi cooperatives were impacted by the COVID-19 pandemic, their worker-centered business model ensured their resilience. During the first statewide shutdown, the Valencia St. location was the only Arizmendi bakery that stayed open. Arizmendi 9th Ave. was closed for 10 weeks but then reopened with a new pick-up window and reduced customer contact. Past financial success and stewarding of resources helped the business avoid layoffs.

In an interview, Timothy Huet, an attorney and Arizmendi Association co-founder, stated that "Arizmendi's networked ecosystem structure [is a] self-reliant scaling model" (Baskin, 2020). While there have been changes and adaptations over 25 years, the model has worked well through good and bad times. Arizmendi 9th Ave. and the Arizmendi Association are inspiring examples of how cooperatives can work together to create quality jobs, promote workers' self-determination, and leverage industry and cooperative development expertise to create and sustain successful worker-owned businesses.

Worker Cooperative Development in a Network: Some Key Takeaways

The Arizmendi Association is one of the most impactful cooperative development organizations in the United States. Aspects of its approach are shared by other successful worker coop development efforts. Here are some key takeaways:

• **Industry expertise reduces risk.** By developing multiple cooperatives in the bakery industry, the Arizmendi Association created more high quality jobs, more quickly for bakery workers. Its initial single-industry focus also built a strong association that could then branch out successfully to new industries.

• **Coop developers play a key role.** Arizmendi's Development and Support Collective (DSC) led the process of creating each new cooperative. This specialized team brings expertise in starting new businesses and in coop development.

• **Shared services support long-term success.** The DSC provides training and other support (e.g., bookkeeping) to worker-owners who are running their businesses, all with a capacity-building mindset. As each coop increases its capacity, the DSC devotes more time to new projects.

• **Member leadership matters.** The DSC is often staffed by worker-owners like Sue Lopez, who for several years worked part-time at the 9th Ave. bakery and part-time supporting new cooperatives. Members' skills and leadership help drive the association's growth and the success of each Arizmendi cooperative.

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Worker-owners at California Solar Electric Company in Grass Valley

California Solar Electric Company:

A transition from sole owner to worker cooperative

Grass Valley, California

California Solar Electric Company (Cal Solar) has been designing and installing solar systems for two decades. General manager Lars Ortegren started working there in 2006 and bought the business two years later from the original owner. He wanted to keep the company's environmental mission alive and to build a culture of trust among people living and working in Grass Valley. Ultimately, Lars decided to share ownership, and Cal Solar became a worker cooperative in 2019.

Lars' experience—first as an employee, then as the company's owner—taught him that the business's value lives in the people who work there. As he notes:

> The idea of cooperative ownership always seemed really enticing to me, especially when you're talking about renewable energy systems. We're installing systems that typically have 25-year warranties on the panels, inverters, and working components, and they involve putting a lot of holes in people's roofs. So the idea of everyone equally owning that responsibility made a lot of sense.

The solar industry in the late 2000s was like a giant startup, and being in solar was a bet on the future. This created conditions that fit well with worker cooperatives, where personal and group incentives are aligned to encourage long-term thinking. The idea of distributing benefits across the workforce had come up before at Cal Solar, so it was no surprise that Lars started exploring worker ownership when he took the helm.

Lars Ortegren, former sole owner, now in his new role as worker-owner at Cal Solar

2010: EXPLORING A NATURAL IDEA

In 2010, Lars and a few coworkers contacted what is now called The Co-op Clinic, a program that provides peer-to-peer consulting to worker cooperatives. The peer advisors looked at Cal Solar's financials and outlined the steps in transitioning to a cooperative. Lars and the team tried to implement some of these steps, but found the process challenging, especially with the company undergoing a growth spurt. So they put the idea on hold. But the peer advisor engagement sparked an important conversation internally about what worker ownership could mean for the firm.

2015-2017: LEARNING THAT TIMING IS EVERYTHING

Several years later, Lars and some key employees decided it was time to get more serious about a transition and engaged Project Equity to assist in late 2015. Project Equity created a structured process and worked with this small group to begin designing their future cooperative.

Lars Ortegren & co-worker-owners at Cal Solar

Cal Solar also engaged most of its 15-member staff at the time in after-work committees to collaborate on strategic planning, formalizing operational procedures, and aspects of the coop design. However, the company was navigating major changes in the solar industry as well as its own rapid growth and decided it had bitten off more than it could chew all at once. They made a sound decision to postpone the coop transition until the company and its operating environment were more stable.

2019: BECOMING A COOPERATIVE—FINALLY!

Over the next couple of years, Cal Solar hit its stride. It saw several years of 15-20% revenue growth, which spiked to 40% in 2019. Lars believes the entrepreneurial mentality and long-term commitment that came from discussing worker ownership contributed to this growth.

Cal Solar had also established a strong financial and managerial foundation by 2019, which made a sale to employees viable. With Project Equity re-engaged, Cal Solar brought newer staff up to speed on the cooperative transition plan, then launched a new five-person transition team to finalize bylaws, create a governance matrix, and document improved approaches to operations and management that would support the coop's success.

Within six months, working with Project Equity and legal counsel, Cal Solar set up a California worker cooperative corporation, activated its new board of directors, and finalized the sale agreement. With a loan from Accelerate Employee Ownership, the company completed its transition in August 2019. At the end of that year, Cal Solar had 33 employees!

2020: THRIVING IN A PANDEMIC

Like so many businesses, Cal Solar was hit hard by COVID-19. The company put all workers on furlough with the first statewide shutdown. A traditional company would expect to see no productivity or engagement from furloughed employees, but Cal Solar's team continued to innovate; after all, the company's future was their own future.

As one example, the sales team came up with a strategy that generated a year's worth of sales in less than a month: they began installing battery storage systems and became an administrator of a special storage rebate, enabling them to offer free batteries to existing customers. As a result, Cal Solar was able to rehire its whole team, and the company's 2020 revenue ended up just 2% below initial projections.

One of the new worker-owners, Chuck Holding, summed it up:

> Whereas the world was experiencing an economic downturn, we had a hiccup. We got together and really went after it, and we delivered unprecedented growth .... We made sure we had a place to work—this place that we own. In a world where businesses are literally closing, we worked hard to stay afloat.

2021: STRONGER TOGETHER

Laura Parkes, a worker-owner and elected Board member, shared:

> Working for Cal Solar during the pandemic has been such an incredible blessing for me. It's made us all a lot stronger as a team and we've all been taking care of each other. Just knowing that this is our company makes my personal investment in Cal Solar a lot stronger.

The strength of worker ownership was clear when times were tough. As Lars said, "Having our workers more bought into the company's wider vision and participating with an ownership mentality has made us a more adaptable company."

Laura Parkes, worker-owner and elected Board member

Employee ownership will serve Cal Solar in good times as well. And from a business and employee satisfaction standpoint, times are good at Cal Solar right now. Operations Manager and worker-owner Angelica Niblock reports that, as of April 2021, the company has 40 employees. **Since it became a worker cooperative less than two years ago, wages across the company have increased more than 20% on average,** and benefits have grown substantially as well. For example, Cal Solar now pays 80% for employee health insurance (up from 50%).

Anastasia Torres, worker-owner at Cal Solar

Cal Solar worker-owner Anastasia Torres described what it's like to have a quality job with ownership:

> Owning a company with a bunch of people I like is great. This is one of the best things that's happened to me and one of the best opportunities I've had to grow in a company.

Worker Cooperative Transitions: Some Key Takeaways

Many companies around the country are undertaking worker cooperative transitions with help from Project Equity and similar organizations. Today, Project Equity can guide a company from feasibility assessment through transition in a year or less if the timing and conditions are right. Cal Solar's story illustrates some of this growing field's key learnings and best practices:

- **Explore options early.** Most succession planners advise business owners to start five years before an ownership transition, but two years can often be enough.
- **Understand readiness factors.** Worker coop transitions can be challenging for young or high growth companies; having stable financial and general management is a key readiness factor.
- **Engage worker ownership transition experts.** Selling a business to its employees and structuring a cooperative to meet a company's specific needs is a complex undertaking; working with skilled guides can make all the difference.
- **The journey is worth it!** Not every business is a fit for employee ownership, but many are. Whether the journey is short or long, the payoff is big!

YECC Training, 2019

Yolo Eco-Clean Cooperative:

Four-year-old worker coop flies solo

Davis, California

Yolo Eco-Clean Cooperative (YECC—pronounced "YES") celebrated a milestone in June 2019 when it became a completely independent worker cooperative. When YECC opened in January 2017, the coop had four part-time members, and by early 2020 (pre-COVID), membership grew to 18 members, most of whom worked full time.

The past year has been a challenge. The coop weathered supply shortages and reduced sales, and three members left under the strain of the pandemic. Nonetheless, with help from a PPP loan, YECC minimized the economic losses to members.

BUILD AND RECRUIT MODEL

YECC is part of an economic development initiative of the California Center for Cooperative Development (CCCD), which used a "build and recruit" approach to create a new worker coop. With this model, a nonprofit, in this case CCCD, forms the business and then recruits the cooperative members. Well before YECC opened for business, CCCD completed a feasibility study and business plan; drafted bylaws, policies, and procedures; and developed training materials. Community volunteers comprised the initial board of directors, with workers joining after they completed their candidacy requirements.

In addition to leading the development phase, CCCD dedicated a full-time staff member to support YECC during its first two years of operation, and part-time staffing for another six months. YECC paid for business operating costs, while the CCCD employee, the *Cooperative Facilitator,* managed day-to-day operations. Using a mentorship approach to model servant leadership, the facilitator worked with members to put the business on a path for success. This included implementing the business plan, providing management support, and training worker members in the cooperative model.

From the beginning, members were actively involved in making decisions about their pay, work organization, policies, and peer evaluation practices. CCCD's role included both engaging workers and leading the business launch and development of the cooperative structure. This combination is at the heart of the "build and recruit" approach, which builds a cooperative work culture and governance experiences that prepare members to take over full operations as the responsibilities of the facilitator are gradually reduced.

YECC'S INDEPENDENCE

In early 2019, YECC members recruited longtime worker-member Eva Carrillo as coop manager. Eva worked alongside Cooperative Facilitator Maria Olmedo for three months before Maria ended her facilitation role in June 2019. Eva says, "Being manager has been a great opportunity to grow as a person. The job comes with more responsibility working with clients and members but, because I worked cleaning, it has made the job in the office easier."

Various non-cleaning roles were developed and divided among members. For example, several members were trained in Quickbooks and now have accounting roles. Two members are responsible for client estimates and scheduling member work hours. After reviewing ways the coop could reduce expenses, members decided to discontinue their outsourced laundry services and rotate doing laundry among members.

YECC members decided to pay everyone at the coop the same hourly wage: $17/hour for weekdays and $18/hour for nights and weekends. When combined with patronage (profit-sharing), total earnings average about $23/hour. They also give themselves paid time off, which is rare in the housecleaning industry.

YECC board member Zulma Giron sees many member advantages. Zulma shares: "I really like working with the coop, it is very flexible, you choose your own hours and, when there is an emergency, someone is always there to pick up your shift. Since we are a team we resolve conflicts with each other's help."[1]

Martha Tapia also feels happy she found the cooperative. She says, "I have been working here for almost two years; it is very flexible and gives me time to be with my family, which is very important for me. One thing that motivated me to work here is the use of the eco-friendly products ... and the opportunity to become an owner."[2]

YECC's newest member, Bertha Campos, also likes the coop's family-friendly approach and the opportunity to share in ownership. She adds, "I was nervous coming into the cooperative but everyone is really friendly and helped me with my training."

[1] Translated from Spanish

[2] Translated from Spanish

ECONOMIC DEVELOPMENT MISSION

As an economic development initiative, creating the Yolo Eco-Clean Cooperative met several of CCCD's goals:

- Develop sustainable, living wage jobs;
- Create cooperative ownership opportunities for underserved community members; and
- Build an environmentally sustainable business that contributes to the local economy.

With the help of many funders, including support from the USDA's Rural Cooperative Development Grant (RCDG), the Catholic Campaign for Human Development, and other foundations, these goals have been realized. But the story doesn't end here. Worker cooperatives continue to promote economic development as they grow and expand. Rather than hire employees and pay them less than the owners, Yolo Eco-Clean, like all worker cooperatives, welcomes new members as co-owners who share profits and build economic security.

Developing Startup Worker Cooperatives: Some Key Takeaways

YECC was the third cooperative that CCCD developed in the cleaning industry, and it is one of dozens of cleaning coops nationwide. CCCD's choice of green cleaning products and its "build and recruit" model were inspired in part by the experience of WAGES (now Prospera), which developed multiple green cleaning coops in the Bay Area in the 1990s and 2000s.

In 2009, five WAGES coops formed a formal network and had more than 100 worker-owners and annual sales of $3.2 million. Two of these cooperatives closed, one after a strong 12-year run and the other after 17 years. Three remain in operation today.

WAGES did rigorous impact studies and found that members' individual incomes doubled and tripled thanks to full-time work and higher hourly pay; also, their family incomes increased 40-80%—a powerful indicator of lasting financial benefits for families and communities.

In WAGES' "high-touch" approach, a coop development team worked with each new business over a three- to five-year period and provided in-depth support on various levels. This high degree of engagement created larger businesses with more worker-owners and was key to the coops' success. Most important, the approach created quality jobs in a low-wage industry and drove strong financial impacts for coop members: not only higher pay and full-time work, as noted above, but also health insurance, profit sharing, and, of course, skill building and self-governance. But the resources required for this high-touch model are extensive.

The coop development model that CCCD used for YECC differed in some key respects from WAGES', but both included the four components below.

Each new cooperative received the following from the coop developer:

- **Management services:** a general manager or cooperative facilitator hired and paid by the nonprofit during the startup and initial growth phases
- **Technical assistance:** expertise in financial management, marketing, governance, regulatory issues, and the coop's core product or service (in this case, green cleaning)
- **Training:** training in governance, financial oversight, conflict resolution, member engagement, and other topics, not just before launch but ongoing
- **Governance support:** the developer had a direct role on the board of directors (either through staff or community volunteers) during the early years

For YECC, CCCD used a somewhat scaled back "medium-touch" approach that succeeded in building a cooperative business that is showing strength and resiliency. Many organizations use a "low-touch" method of worker coop development that focuses primarily on training, one of the four components listed above. This model is less labor intensive and therefore less expensive. But it is also less likely to generate full-time jobs or coops that grow as quickly as with the medium- and high-touch approaches. This illustrates the need not only for more funding for cooperative development, but also for research on how these different types of coop development affect business longevity, growth, job quality, and financial impact, as well as non-financial outcomes.

California Statutes & IRS Codes Regulating Worker Cooperatives

Worker Cooperative provisions exist within California's Cooperative Corporation Code Sections 12200 to 12656.5 with special provisions that directly relate to the legal rights and obligations of worker cooperative corporations. Many worker cooperatives, for a variety of reasons, choose not to incorporate as a Cooperative Corporation and, instead, operate as Partnerships (Cal. Corp Code §§ 15800 - 16962), Limited Liability Companies (Cal. Corp. Code §§ 17701.01 - 17713.13), General Stock Corporations (Cal. Corp. Code §§ 100 - 2319), or even Nonprofit Public Benefit Corporations (Cal. Corp. Code §§ 5110 - 6910). Below, only worker cooperative corporations statutes are discussed. For more information on worker cooperatives forming as LLCs, General Stock Corporations, or Nonprofit Public Benefit Corporations, please visit theselc.org/bite-sized-law and Co-opLaw.org.

Defining worker cooperative:
Cal. Corp. Code § 12253.5 defines a worker cooperative and requires that "at least 51% of the workers shall be worker-members or candidates."

• "Worker cooperative" or "employment cooperative" means a corporation formed under this part that includes a class of worker-members who are natural persons whose patronage consists of labor contributed to or other work performed for the corporation. Election to be organized as a worker cooperative or an employment cooperative does not create a presumption that workers are employees of the corporation for any purposes. At least 51% of the workers shall be worker-members or candidates.

Reduced meeting notice requirements for "collective board" worker cooperatives:
Cal. Corp. Code § 12461 ("A worker cooperative shall provide notice of the meeting not less than 48 hours before the meeting if the meeting is a meeting of only worker-members, provided that the notice is delivered personally to every worker-member.") and Cal. Corp. Code § 12460.5 (collective board worker cooperatives are not required to hold an annual meeting).

Community investor exemption:
Ability to raise capital from "investor-members," aka the general public, for up to $1000. A worker cooperative corporation includes a special category of investor, the "community investor," who is not a worker-member, but rather a person who invests money in the cooperative with the expectation of a limited return and limited voting rights.

• Cal. Corp. Code § 12253 (c) Community investor voting power in a worker cooperative shall be provided in the articles or bylaws, and is limited to approval rights only over a merger, sale of major assets, reorganization, or dissolution. Approval rights shall not include the right to propose any action.

Worker Cooperatives & the Internal Revenue Service (IRS)

Worker cooperatives have a special and beneficial tax category:
The Puget Sound Plywood, Inc. v. Commissioner (44 T.C. 305, 308 [1965]) case became the leading case which the IRS relied on for the definition of "operating on a cooperative basis." The court listed three "guiding principles":

1. "Subordination of capital, both as regards control over the cooperative undertaking, and as regards the ownership of the pecuniary benefits arising therefrom";

2. "Democratic control by the worker-members themselves"; and

3. "The vesting in and the allocation among the worker-members of all fruits and increases arising from their cooperative endeavor (i.e., the excess of the operating revenues over the costs incurred in generating those revenues), in proportion to the worker-members' active participation in the cooperative endeavor."

Subsequent revenue rulings emphasized that these principles were necessary to a determination that a business was operating on a cooperative basis. This case established for the first time that a worker cooperative is entitled to exclude retained patronage dividends from gross income to the same extent as purchasing and marketing cooperatives.

That tax category is Subchapter T, which is pretty great for cooperatives! It provides a tax deduction to the business (the cooperative) for patronage refunds paid to members, which can reduce the overall cost of doing business. Effectively, it avoids double taxation for member generated income. With Subchapter T, you can have some income taxed at 1) the entity level, 2) member level, 3) both, or 4) neither.

The illusory tax incentives of 26 U.S. Code § 1042 - Sales of stock to employee stock ownership plans or certain cooperatives: Section 1042 of the tax code enables business owners to reduce the amount of taxable proceeds resulting from the sale of equity to employees. Under Section 1042, some business owners that sell their company to employees can defer capital gains taxation; and potentially avoid it altogether. In order to qualify for Section 1042 deferral, the seller must:

1. Have owned the stock for more than three years prior to transfer;

2. Have transferred at least 30% of the company's overall equity, and at least 30% of each class of outstanding stock, to his or her employees;

3. Issue a written statement to the IRS consenting to certain tax rates and requirements;

4. Be a C Corporation, or convert to a C Corporation prior to sale; and

5. Reinvest the proceeds in "Qualified Replacement Properties" within a 15-month period.

Qualified replacement properties include stocks, bonds, notes, and securities of operating corporations, incorporated in the United States. Preferred shares in the cooperative may also qualify as replacement property, but only if convertible into common stock at a reasonable price.

Two or more shareholders can combine their sales in order to meet the 30% requirement, so long as the sales are part of a "single, integrated transaction." Moreover, the 30% requirement may be met over a series of multiple transactions, but only the transaction that facilitates employee ownership of 30% or more of the company will qualify for Section 1042 treatment. After the initial 30% threshold is reached, all subsequent transfers to the ESOP or eligible worker cooperative will qualify for Section 1042 treatment.

Unfortunately, due to its complexity and requirements, the 1042 rollover has rarely been used for worker cooperative conversions and, when used, has been very costly. Legal professionals and cooperative developers have been developing ways to make the 1042 more accessible to worker cooperative conversions.

LIST OF CALIFORNIA WORKER COOPERATIVES

COOPERATIVE NAME	DESCRIPTION OF SECTOR	LOCATION	YEAR FOUNDED/ YEAR CONVERTED
CALIFORNIA WORKER COOPERATIVES WITH 50 OR MORE WORKERS			
AlliedUP Cooperative Inc.	Employment services/staffing (NAICS 56)	Statewide	2021
Alvarado Street Bakery	Bread manufacturing (NAICS 31-33)	Petaluma	1983
Cheese Board Collective	Food bakery and café (NAICS 72)	Berkeley	1967/1971
Rainbow Grocery	Food and beverage; grocery (NAICS 44-45)	San Francisco	1993
Sun Light & Power	Design/build; solar power systems (NAICS 23)	Berkeley	1976/2018
Turning Basin Labs	Employment services/staffing (NAICS 56)	Oakland	2019
CALIFORNIA WORKER COOPERATIVES WITH 20-49 WORKERS			
Anon. warehousing/shipping co.	Warehousing (NAICS 48-49)	Oakland	1928/2021
Ariza Cheese	Food manufacturing (NAICS 31-33)	Los Angeles	1972/2017
Arizmendi Bakery, 9th Avenue	Food bakery (NAICS 72)	San Francisco	2000
Arizmendi Bakery, Lakeshore	Food bakery (NAICS 72)	Oakland	1997
A Slice of New York	Food pizzeria (NAICS 72)	Santa Clara	2006/2017
California Solar Electric	Design/build; solar power systems (NAICS 23)	Grass Valley	2000/2019
Community Printers, Inc.	Print solutions and bindery (NAICS 31-33)	Santa Cruz	1977
Corners of the Mouth	Green cleaning services (NAICS 56)	Mendocino	1975
Emma's Eco-Clean, LLC	Food and beverage; grocery (NAICS 44-45)	Redwood City	1998
Maybeck High School	Teacher-run school (NAICS 61)	Berkeley	1972
Proof Bakery	Food bakery (NAICS 72)	Los Angeles	2010/2021
Research Action Design	Consulting (NAICS 54)	Joshua Tree	2010 / 2021
Restif Cleaning	Cleaning services (NAICS 56)	Arcata	1983 /1990
Three Stone Hearth	Specialty food store (NAICS 44-45)	Berkeley	2006
Uptima Business Bootcamp	Business accelerator, education (NAICS 61)	Oakland	2016
CALIFORNIA WORKER COOPERATIVES WITH 10-19 WORKERS			
Aorta, Inc.	Consulting; social justice (NAICS 54)	Multi-site/national	2010
Arizmendi Bakery, San Pablo	Food bakery (NAICS 72)	Emeryville	2003
Arizmendi Bakery, San Rafael	Food bakery (NAICS 72)	San Rafael	2010
Arizmendi Bakery, Valencia	Food bakery (NAICS 72)	San Francisco	2010
Davis Home Pros	Construction (NAICS 23)	Walnut Creek	2019
Design Action Collective	Design services; graphic design (NAICS 54)	Oakland	2002
FEED Sonoma	Organic produce distribution (NAICS 42)	Petaluma	2011/2020
Heartwood Cooperative	Design/build; woodworking (NAICS 23)	Berkeley	1974
Home Green Home LLC	Green cleaning services (NAICS 56)	San Francisco	2009

LIST OF CALIFORNIA WORKER COOPERATIVES, *continued*

COOPERATIVE NAME	DESCRIPTION OF SECTOR	LOCATION	YEAR FOUNDED/ YEAR CONVERTED
Mandela Grocery	Food and beverage; grocery (NAICS 44-45)	Oakland	2009
Mariposa Gardening and Design	Landscaping services (NAICS 56)	Berkeley	2005/2016
Missing Link Bicycle Cooperative	Bike shop/repair (NAICS 44-45)	Berkeley	1973
Other Avenues Food Cooperative	Food and beverage; grocery (NAICS 44-45)	San Francisco	1998
Pangea Legal Services	Legal services (NAICS 54)	SF, San Jose	2013
Promotoras Activas SF, LLC	Community outreach services (NAICS 62)	San Francisco	2021
Radiate Consulting Bay Area	Consulting services (NAICS 54)	Oakland, Orange Cty.	2020
Rockman et al	Research and evaluation (NAICS 54)	San Francisco	1999/2019
Solidarity Research Center	Data and research firm (NAICS 54)	Los Angeles	2015
Suigetsukan Martial Arts School	Martial arts dojo (NAICS 71)	Oakland	1991
Sustainable Economies Law Ctr.	Legal services (NAICS 54)	Oakland	2009
Teamworks Cleaning	Cleaning services (NAICS 56)	Sunnyvale	2006
The Local Butcher Shop	Local, sustainable meat (NAICS 44)	Berkeley	2011/2021
The Stud	Drinking place; bar (NAICS 72)	San Francisco	1966/2017
Yolo Eco-Clean Cooperative	Green cleaning services (NAICS 56)	Davis	2016
CALIFORNIA WORKER COOPERATIVES WITH FEWER THAN 10 WORKERS			
Adams and Chittenden	Glass manufacturing (NAICS 31-33)	Berkeley	1993/2019
Alchemy Collective Cafe	Food and beverage cafe (NAICS 72)	Berkeley	2010
Arizmendi Association, Development and Support Collective	Consulting services (NAICS 54)	Oakland	1996
Arizmendi Construction	Design and build (NAICS 23)	Oakland	2016
Bay Area Girls Rock Camp	Music youth camp (NAICS 71)	Oakland	2008
Biofuel Oasis	Biodiesel fuel station (NAICS 44-45)	Berkeley	2003
Box Dog Bikes	Bike shop / repair (NAICS 44-45)	San Francisco	2004
Cohere, LLC	Software technical coaching (NAICS 54)	Oakland	2018
Colmenar Cooperative Consulting	Consulting services (NAICS 54)	Oakland	2020
Co-Risk Labs	Evaluation and research (NAICS 54)	Oakland	2016
Dig Cooperative	Green design/build, water systems (NAICS 23)	Oakland	2005
Drought Smart Cooperative	Green design/build, water systems (NAICS 23)	Berkeley	2015
East Bay Permanent Real Estate Cooperative	Real estate (NAICS 53)	Oakland	2017
Echo Adventure Cooperative, Inc.	Wellness classes and adventure tours (NAICS 71)	Groveland	2016
Electric Embers Cooperative	Internet hosting services (NAICS 51)	San Francisco	2006
Embodiment Arts Collective	Health; alternative therapies (NAICS 62)	San Francisco	2015
Flying V Farm	Food and beverage; farm stand (NAICS 44-45)	Placerville	2018

LIST OF CALIFORNIA WORKER COOPERATIVES, *continued*

COOPERATIVE NAME	DESCRIPTION OF SECTOR	LOCATION	YEAR FOUNDED/ YEAR CONVERTED
Groundswell Community and Retreat Center	Recreational community retreats (NAICS 71)	Yorkville	2017
Lift Economy	Consulting services (NAICS 54)	Oakland	2010
Marketplace Cooperative, Inc.	Administrative plus marketing services (NAICS 54)	Anza	2016
Niles Pie	Food bakery (NAICS 72)	Union City	2010/2017
Pedal Express Courier Service	Transportation; bicycle courier (NAICS 48-49)	Oakland	1994
Pilates In Common	Fitness (NAICS 71)	San Francisco	2018
Plausible Labs	Computer software (NAICS 51)	San Francisco	2008
Red Hen Collective	Wine distributor (NAICS 42)	Oakland	2016
Reflex Design Collective	Consulting (NAICS 54)	Oakland	2018
Rhizome Urban Gardens	Sustainable landscaping services (NAICS 56)	San Francisco	2013
Rich City Rides	Bike shop/repair, recreation (NAICS 44-45, 71)	Richmond	2012
Root Volume	Landscaping (NAICS 56)	Oakland	2016
San Francisco Community Land Trust	Housing cooperative (NAICS 53)	San Francisco	2003
San Francisco Mime Troupe	Theater group (NAICS 71)	San Francisco	1970
San Francisco Tech Collective	Computer and IT services (NAICS 54)	San Francisco (and Cambridge, MA)	2006
Sarana Community Acupuncture	Healthcare; acupuncture therapies (NAICS 62)	Albany	2008/2015
SF Green Cab LLC	Transportation; green taxi (NAICS 48-49)	San Francisco	2007
Strength In Numbers	Bookkeeping (NAICS 54)	Oakland	2017
The Lei Company	Retail; handcrafted leis (NAICS 44-45)	Oakland	2017
Uxo Architects	Architecture services (NAICS 54)	Oakland, Los Angeles	2018
Wild Swans Publishing Cooperative	Publishing (NAICS 51)	Berkeley	2019
Your SCRUF Pet Care Collective	Pet care services (NAICS 81)	Oakland	2016
CALIFORNIA WORKER COOPERATIVES WITH UNKNOWN NUMBERS OF WORKERS			
AK Press	Publishing (NAICS 51)	Chico	1990
Community Market	Food and beverage; grocery (NAICS 44-45)	Sebastopol, Santa Rosa	1975
Community Network Solutions	Design, screen printing, murals (NAICS 54)	Oakland	2016
Cooperative Digital	Business phone systems & services (NAICS 51)	Berkeley	1998
Courage LLC	Health homecare (NAICS 62)	Los Angeles	2013
Cycle of Change/The Bikery	Bike shop/repair, recreation (NAICS 44-45, 71)	Oakland	2009
FruitCraft Fermentery and Distillery	Manufacturing; winery, distillery (NAICS 31-33)	Carlsbad	2009
Green and Clean Professional Housecleaning	Green cleaning services (NAICS 56)	Concord	2009

LIST OF CALIFORNIA WORKER COOPERATIVES, *continued*

COOPERATIVE NAME	DESCRIPTION OF SECTOR	LOCATION	YEAR FOUNDED/ YEAR CONVERTED
Hasta Muerte	Coffee and bakery (NAICS 72)	Oakland	2017
NursesCan Cooperative	Health homecare (NAICS 62)	Los Angeles	2017
PedX Courier & Cargo	Transportation; courier (NAICS 48-49)	Santa Cruz	1994
Professional-Eco Cleaning, LLC	Green cleaning services (NAICS 56)	Hayward	2017
Taste of Denmark	Food bakery (NAICS 72)	Oakland	2010
Ubuntu Coffee Cooperative Inc.	Manufacturing; coffee roasters (NAICS 31-33)	Emeryville	2012
Zinc Technology Inc.	Software solutions (NAICS 54)	Oakland	2015

NAICS INDUSTRY CODE	DESCRIPTION
NAICS 72	Accommodations and Food Services
NAICS 56	Administrative and Support and Waste Management and Remediation Services
NAICS 71	Arts, Entertainment, and Recreation
NAICS 23	Construction
NAICS 61	Educational Services
NAICS 62	Health Care and Social Assistance
NAICS 51	Information
NAICS 31-33	Manufacturing
NAICS 81	Other Services except Public Administration
NAICS 54	Professional, Scientific, and Technical Services
NAICS 53	Real Estate and Rental and Leasing
NAICS 44-45	Retail Trade
NAICS 48-49	Transportation and Warehousing
NAICS 42	Wholesale Trade

TABLE OF CONTENTS: CALIFORNIA HOUSING COOPERATIVES

ABSTRACT: HOUSING COOPERATIVES

The dire state of housing in California demands a solution. In this chapter, we demonstrate that a particular form of cooperative housing–the limited equity housing cooperative (LEHC)–is uniquely positioned to address this crisis.

LEHCs have several advantages over other types of affordable housing: resident ownership, democratic decision making, and statutory mechanisms that preserve affordability (through resale restrictions) and perpetuity of purpose (transfer of property can only be for nonprofit purposes). By creating an affordable and inclusive housing opportunity for low- and moderate-income households, LEHCs bring a measure of racial and economic justice to the housing sector. LEHCs have a long history of success in California and throughout the country and exist within a well-established national cooperative ecosystem.

INTRODUCTION:
A SOLUTION TO CALIFORNIA'S HOUSING CRISIS

California is in the midst of a long, protracted housing crisis. The median home price, $600,000, is twice that of the national median (Buhayar & Cannon, 2019). Across all income levels, 42% of homeowners and renters are cost-burdened, meaning that 30% or more of their income is spent on housing. This is the highest level of cost-burdened households in the country, a condition brought on by a severe housing shortage coupled with a lack of strategies to maintain affordability.[1] The state ranks 49th in housing units per resident (Buhayar & Cannon, 2019).

As California tackles its housing crisis, cooperative housing models, particularly limited equity housing cooperatives (LEHCs), are an underutilized, proven strategy for creating stable, affordable housing. A mutual self-help model, sometimes referred to as an intermediary form of homeownership (as compared to single-family homeownership), housing cooperatives offer multiple benefits:

- Self-sustainable, democratically controlled ownership opportunities;
- Quality housing for people with low and moderate incomes, and an option for middle-income households priced out of traditional ownership;
- Permanent price-stabilization; and
- Fewer financial risks for families, who benefit from group purchasing power and avoid individual financial responsibility for unexpected repairs and an individual mortgage (payments that can overwhelm a household during difficult economic times).

[1] Most construction in California is concentrated on high-tier construction rather than lower-priced beginner homes, because this yields builders the highest profit (Crane et al., 2019).

Recommendations to Further the Development of LEHCs

1. Increase visibility through education and technical assistance to broaden knowledge and understanding.

a) Educate policy makers, financial institutions, and affordable housing developers about LEHCs, including financing mechanisms.

b) Provide LEHC purchase preferences for surplus property and include technical assistance for residents to form and finance LEHC development.

c) Require (and finance) annual governance education as part of the operating budget of LEHCs.

2. Expand LEHC development and innovations.

a) Incorporate the LEHC model into the state's strategy to expand reasonably priced homeownership opportunities and to solve workforce housing shortages.

b) Identify LEHCs as eligible for all affordable housing and home ownership funding programs.

c) Recognize the role LEHCs play in providing affordable units in integrated housing development.

d) Promote housing justice by encouraging innovative models that include LEHC components.

For housing cooperatives to have a real impact on California's housing crisis, however, the legislature needs to create a more supportive legal and regulatory environment. As we discuss below, legislation can open the door to resident ownership through tenant opportunity-to-purchase requirements, which give LEHCs and community land trusts purchase preference when the state makes "surplus properties" available through auction or other means.

In this section we review the dimensions of the housing crisis, particularly racial disparities; the legal definition, operation, and ecosystem that supports housing cooperatives; the history of housing cooperatives and the policies and practices that made LEHCs, in particular, a welcome housing option for people of color; barriers to widespread development of housing cooperatives; and finally, recommendations for expanding the role of LEHCs in solving the housing crisis.

LEHC recommendations, continued

3. Reform legal and regulatory frameworks.

a) Address the myriad of regulatory conflicts that stymie LEHC development and seek long-term remedies, such as distinguishing cooperatives from other "common interest" developments.

b) Develop opportunity-to-purchase initiatives for tenants in rental properties and manufactured home parks.

c) Adopt statutes that foster the conversion of manufactured home parks (MHPs) to resident cooperatives to preserve naturally occurring affordable housing.

d) Allow LEHCs to qualify for welfare tax exemptions when they have households that qualify for housing subsidies.

SECTION 1:
WHAT IS THE VALUE OF HOME OWNERSHIP?

Americans value homeownership, and research demonstrates that homeownership offers real social and economic benefits for families.[2] Homeownership increases the financial predictability and stability of households and has been linked with higher rates of life satisfaction, political participation, and voluntarism (McArthur & Edelman, 2017). The benefits of homeownership are also associated with improved "life chances" of children, including a significant positive effect on educational achievement (associated with higher wages as adults), reduced engagement with law enforcement, and reduced teen pregnancy rates (Herbert & Belsky, 2006).

It is not homeownership per se that likely contributes to better life chances; it is what homeownership brings: stability. People who own their homes are less vulnerable to the precarities of renting: price increases, displacement due to landlord actions or resident reactions to their housing situation, and a persistent lack of affordable housing.

[2] Studies control for factors such as income, race, and age.

Because homeownership has social value, the federal government has used public policy to fuel its growth, including widely used federally insured home loans that benefit middle- and upper-income households. Federal homeownership programs, however, have not provided equal opportunities for all. As we discuss in more detail below, past racial discrimination in housing programs and access to credit has resulted in very uneven homeownership rates among racial groups, which contributes to the ever-widening wealth gap we see today (Jacobus, 2010; also see sidebar, "A Housing Crisis with Disparate Impacts," p. 5). Housing cooperatives offer an alternative ownership model that addresses some of these historic injustices.

Housing Security or a Piggy Bank?

Single-family homeownership is increasingly viewed through the lens of equity and wealth generation. In fact, for many households, equity in their home is used much like a savings account. Single-family homeowners often rely on refinancing their home or using reverse mortgages to exchange equity for cash to pay off debts, finance a child's education, or enable retirement (McArthur & Edelman, 2017).

> **"LEHCs offer housing security and reduced housing costs, which opens the door for residents to save and invest in other ways."**

As such, homeownership has been touted as the best and sometimes only opportunity for low- and moderate-income households to build wealth. This view, however, overlooks the economic constraints of credit, income, and wealth (Jacobus & Emmeus, 2010). While the speculative nature of home ownership can reap financial benefits, there are also significant risks, and those risks are higher for some than others.

The effects of predatory lending during the 2008 housing crisis, for example, fell hardest on low- and moderate-income households, particularly people of color. The U.S. Department of Justice filed lawsuits against Wells Fargo and Bank of America, accusing the lenders of steering thousands of minority borrowers into costlier subprime loans while whites with similar credit scores were given prime loans. Both banks settled the discrimination lawsuits (Baradaren, 2017). Still, these sub-prime mortgage practices and the subsequent Great Recession devastated communities of color. Homeownership rates fell most for Black households, followed by Hispanic households (Choi et al., 2019; Rothstein, 2017).

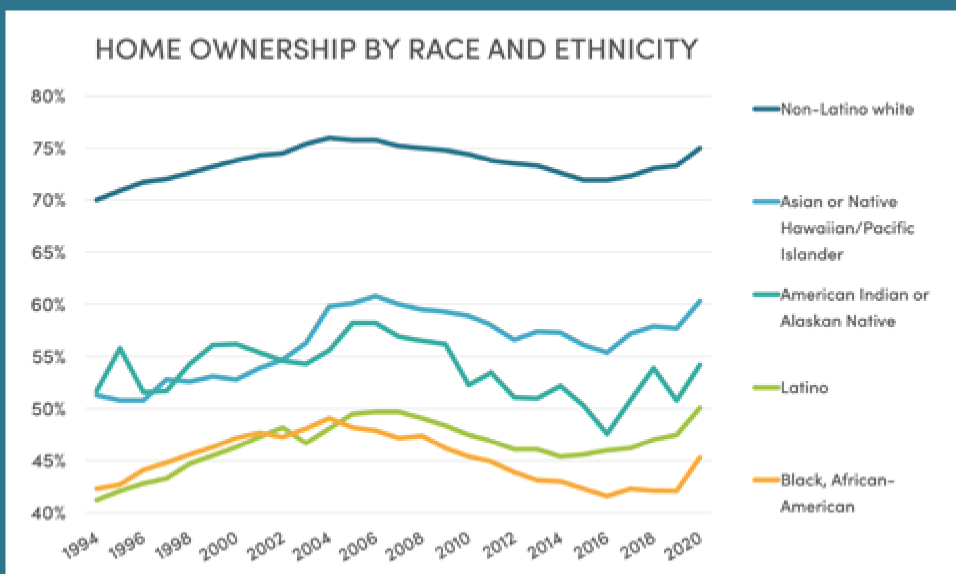
LEHCs fared better than any other form of housing during the 2008 recession because they did not fall victim to predatory lending (Fisher, 2018). This is because LEHCs are not a tool to reap wealth through appreciation. Rather, they offer housing security and reduced housing costs, which opens the door for residents to save and invest in other ways. Limiting appreciation retains affordability over time and replaces the speculative nature of housing with home, community, and security.

A HOUSING CRISIS WITH DISPARATE IMPACTS

For a decade, California has been among the states with the lowest home ownership rates (U.S. Census) and the highest rates of homelessness (NAEH, 2020). But the housing crisis is not evenly distributed: people of color and young adults have the lowest homeownership rates, as demonstrated in the charts below.

Race

California's low homeownership rates are not evenly distributed. Among whites, 63% own their homes; among Latinos and Blacks, the rates of homeownership are 41.9% and 34% respectively (American Community Survey, 2014-18). The chart below displays these differences nationally, over more than two decades, demonstrating how racist and unethical lending practices culminated in the disproportionate impact of the 2008 housing crisis. The crisis "turned the persistent racial wealth gap into a chasm that wiped out 53% of total black wealth" (Baradaran, 2017, p. 249).



Source: Carmel Ford, March 13, 2019: National Association of Home Builders
http://eyeonhousing.org/2019/03/homeownership-rates-by-race-and-ethnicity

Age

Owning a home is increasingly out of reach for young adults (Erdmann, 2019). For Californians age 18 to 30 (millennials), the home ownership rate has dropped significantly since 1960, falling from 25% to 15% (Uhler, 2015). Furthermore, millennials of color are faring decidedly worse than their white and Asian peers in homeowner status as well as other socioeconomic outcomes (Cramer et al., 2019, p. 30).

Not a Preference to Rent

Low homeownership rates cannot be explained by a preference to rent. Almost 55% of California rental households are cost-burdened, with more than 30% of their income going toward rent.[3] Thirty percent of Californians pay more than 50% of their income toward rent and utilities (JCHS, 2017). Statewide restrictions on rent hikes and evictions have been used to protect already vulnerable renters from homelessness but there is cause for concern, particularly with regard to the pandemic: 60% of California renters reported loss of income as of March 2020, and 14% reported being behind on their rent as of August 2020. These numbers were higher for Black and Brown Californians (Reid & Heisler, 2020).

These trends have remained consistent for over a decade, contributing to California's high rate of homelessness (Petek, 2020). To prevent egregious rent hikes, California's legislature passed the Tenant Protection Act of 2019, prohibiting rent hikes of more than 5% plus the local rate of inflation. Some areas of the state also have local rent-control ordinances.

[3] All rent costs include the cost of utilities.

SECTION 2:
WHAT IS A HOUSING COOPERATIVE?

In general, cooperatives form to meet a pressing need or problem. They provide a collective rather than an individual solution. Housing cooperatives in California have been used to counteract the effects of racial redlining; to create affordable, stable, quality housing for workers; and to provide an alternative to slum housing for farmworker households.

Definition: Democratically Owned & Governed

A housing cooperative is a real estate development that is owned and democratically controlled by the resident members. The community is owned through a corporation or similar entity, and each household owns a share that entitles it to cooperative membership and an occupancy right to a particular unit. Typically, the cooperative is financed through a blanket mortgage, which covers the entire property, and members pay monthly carrying charges to cover mortgage and operating expenses. Democratic governance is based

LEHCs: a permanently affordable housing option

California law *(Civil Code Section 817-817.4)* recognizes and regulates LEHCs, promoting continued purpose and affordability by:

- Limiting share price increases in a sale when a member leaves the cooperative. The law permits increases of no more than 10% per year in share prices. Most cooperatives have caps that are lower, and some are "zero equity," which keeps the share price consistent from one owner to the next.

- Preventing a sale or conversion of the entire cooperative by specifying that any proceeds be dedicated to a public or charitable purpose (i.e., members may not benefit financially).

on the household, not the individual occupants. Most housing cooperatives have restrictions on renting and prohibit investment shares so members cannot own more than one household/share in the cooperative.

Instead of owning an individual home, members own a share in the corporation. When a member enters or leaves the cooperative, the transaction comprises the purchase and sale of that share which is separate from the mortgage that finances the entire development. Share pricing is specified in the coop's bylaws and policies and usually varies by the type of unit the member occupies (e.g., the share price of a one-bedroom home will be less than that of a three-bedroom home). While the blanket mortgage finances the cooperative corporation, member shares are generally financed through a personal loan known as a *share loan.* Share prices vary widely among cooperatives, from as little as one hundred dollars to thousands. No matter what type of housing cooperative, home size, or price, every household has one vote.

Types of Construction

Housing cooperatives provide any number of housing options: townhomes, apartments, single-family residences, mobile home parks–virtually any type of housing construction. While they are usually located on one parcel of land, scattered-site cooperatives join multiple dwellings on separate parcels. Because housing cooperatives are established to address the identified needs of its members, they can include upscale developments for economically privileged households who want to control their community, as well as developments established to provide ownership opportunities for those who are economically locked out of the traditional homeownership market. Cooperatives can also be established for special-purpose populations such as seniors, students or employee groups. Cooperative models reflect these varying purposes.

This provision assures that members do not sell the property to a real estate speculator, who will convert to market rate housing for sale or rent.

• Requiring owner occupancy. This assures that members of the cooperative are the beneficiaries of the housing and that each member has only one home and one vote. Most LEHCs allow for short-term rentals to assure that a temporary household relocation does not force a member to leave the cooperative.

A subset of LEHC law specifies special considerations for workforce housing (Civil Code 817.1), including recognizing that two classes of membership are represented on the board: one class elected by the residents and one appointed by the sponsor organization. The law requires that residents comprise the majority of the board members.

Cooperative Housing Models

Of the three types of housing cooperatives, limited equity housing cooperatives (LEHCs) are the most common in California. Market rate housing cooperatives and leasehold housing cooperatives offer two additional alternative housing models.

Limited Equity Housing Cooperatives (LEHCs), which are recognized and regulated by California law *(see sidebar, p. 6-7),* offer permanently affordable home ownership opportunities for low- and moderate-income households. A combination of public and private funds generally finances the LEHC blanket mortgage. The share price, or cost to buy in to the cooperative, is considerably lower than a typical mortgage down payment, making ownership affordable for those priced out of the single-family home market.

An LEHC may be combined with a Community Land Trust (CLT). The land trust is a community-based nonprofit that owns the property and is governed by a board of community members that may also include LEHC residents. In this relatively new approach, the LEHC usually owns the units and leases CLT land. When the CLT owns both the land and the units, the LEHC holds a master lease on the development.

Combining a CLT with a LEHC achieves three goals, two of which are relevant to California. First, a CLT may be positioned to more easily secure land, which can be leased by the LEHC. Second, the nonprofit CLT staff can oversee stewardship, assuring training for cooperative members and professional oversight (Davis, 2017; Jacobus & Davis, 2010; Temkin et al., 2010; Baiocchi, 2018).

The third purpose of the land trust, to preserve the affordable housing in perpetuity, is of low importance in California since the LEHC statute already prohibits residents from selling the cooperative for monetary gain, thereby ensuring affordability in perpetuity.

The CLT/LEHC combination has a downside for the cooperative: residents own the buildings but not the land underneath them, and in some cases, they may only own a lease on the land and buildings. Unless cooperative members comprise the land trust board, the CLT dilutes the democratic control exercised by residents. If the CLT is not governed by residents, conflicts of interest may arise as each entity has different survival needs. The CLT needs to cover its operating costs and the interest of all of their properties, while the coop is focused on their community. Operating costs may also be higher for the LEHC because the CLT needs to finance its management and administration costs and is likely to pass them on to the LEHC residents.

Pros and Cons of Combining the LEHC with a CLT

INDEPENDENT LEHC	LEHC ON CLT
PROS	**PROS**
Resident ownership of land and homes	Nonprofit ownership of tax-exempt land
Democratic governance by residents	Stewardship/oversight of resident governance
Financial efficiency of owning both land & units	CLT may be better able to secure donated land or land at a reduced price
CONS	**CONS**
Potential ineffective governance due to a of lack of training and support	Less autonomy for coop; if board does not consist of LEHC residents, potential conflict of interest issues
Need for residents to identify technical assistance resources on their own	Possible higher operating costs when CLT administrative costs are passed on to the LEHC

Market Rate Housing Cooperatives operate in the private market. They are sometimes referred to as stock cooperatives. Households arrange private financing for share purchases and when a member moves, their share may be sold at its full market value. Market rate coops are common in the luxury housing milieus in New York City, however in California they are usually found in relatively moderate housing markets. Consistent with other cooperatives, renting or subletting are usually restricted.

Lease-hold Housing Cooperatives are usually established to provide resident-governed affordable housing in situations where turnover is relatively common, and a very low- (or no-) cost entry is imperative. There is no share purchase or ownership in this type of cooperative; instead, the cooperative leases the property from a nonprofit or other entity, and membership is defined by the lease agreement. Cooperative membership is usually restricted to a particular class: for example, in a student housing cooperative, the member must be a student, and in mutual housing, which is usually subsidized housing for multi-family or senior households, the member must fall within the income guidelines.

Cooperative members comprise, in whole or in part, the board of the entity that owns the property of the lease-hold cooperative. For example, in student cooperatives, a student association typically owns the property and board members are elected by the cooperative membership. Cooperative Services Inc. (CSI), a national nonprofit dedicated to affordable senior housing, uses the mutual housing model. The nonprofit owns the properties and each mutual has a resident board, elected by the members, that governs their community. The board of CSI includes representatives from the individual communities.

The following displays how each cooperative model is commonly used to address member needs and desires.

COOPERATIVE MODEL	Limited Equity Housing Cooperative	Market Rate Housing Cooperative	Lease-hold/ Mutual Housing Cooperative
Multi-family (non-restricted) community	Yes	Yes	Yes
Senior housing	Yes	Yes	Yes
Student housing	No	No	Yes
Shared house*	Yes	Yes	Yes
Property ownership in a manufactured home park**	Yes	Yes	No
Workforce cooperative	Yes	Yes	No
Coop in a CLT	Yes	No	Yes

*Share entire house, or divide into rooms or sections of the home

**Cooperative ownership of property; individual ownership of manufactured homes

An Innovative Initiative: The Permanent Real Estate Cooperative

Innovations that use the cooperative model can make important contributions to housing opportunities. As a strategy to increase affordable housing stock and democratically governed neighborhoods, the Sustainable Economies Law Center created the Permanent Real Estate Cooperative (PREC), a multi-stakeholder cooperative. PREC's diverse membership of investors, residents, and community members aggregate their financial, legal, and technical capacity to purchase property, remove it from the speculative market, and repurpose it to create housing and other cooperatives in communities of color. The role of the PREC and its staff is to support community members to raise non-extractive capital from their community to fuel purchases, halt gentrification, and create communities that are stable and sustainable.

SECTION 3:
WHAT ARE THE BENEFITS OF LIMITED EQUITY HOUSING COOPERATIVES?

We focus on LEHCs because the model offers long-term stable and affordable housing for the member-owners. These cooperatives date back to the 1920s and are sustained by their members with remarkable success and longevity. As a result, considerable research, summarized below, attests to the benefits of the model.

Advantages for Residents

For low, moderate, and middle-income families and for particular groups such as seniors and farmworkers, LEHCs provide a host of benefits not available through other affordable housing options. These include:

• **Asset building.** While most LEHCs allow for equity accumulation, it is limited in order to maintain affordability over time. In addition to limited equity, asset-building opportunities in the LEHC come through reduced housing costs. Low monthly costs allow LEHC members to redirect savings from reduced housing costs to diverse uses such as a child college funds, a down payment on a single-family home, or a traditional savings account. Less financially stressed homeowners can enjoy the arts, take a vacation, travel, or purchase a second car or recreational vehicle (Temkin, Theodos, & Price, 2010; Green, 2018).

• **Affordability and security.** Cooperative ownership shields members from the vulnerabilities of renting such as poor maintenance, rent hikes, and displacement if a landlord sells or decides to terminate the lease. The cooperative operates at cost, and the board, elected by members, hires and oversees management and finances. Consequently, the monthly "carrying charge" – the member's portion of debt service and operating costs–is significantly less than comparable rental or mortgage payments, especially when replacement and maintenance costs are factored in (Tempkin et al., 2010).

• **Improved economic stability, health, and well-being.** Unaffordable housing costs force households to spend less on other basic necessities such as healthcare and food, and may cause them to seek lower-quality childcare or underinvest in important assets like education or retirement savings (Kimberlin, 2017). The affordability of monthly carrying charges promotes economic stability and offers members multitudes of non-economic benefits, including improved physical health, better educational performance, increased racial and economic integration, and greater personal and family security (Lawton, 2014).

• **Affordable, community-oriented living for seniors.** Senior cooperative housing is an effective alternative for seniors and enriches their lives. The senior housing LEHC offers preservation of equity and access to homeowner tax advantages. Limited Equity and Mutual Housing (zero-equity model) cooperatives offer seniors access to high-quality affordable housing and social benefits including control of their housing and lives and integration into a community that is supportive, safe, and independent (Sudo, 2019; Lewis & Higgins, 2004).

> **"Senior cooperative housing is an effective alternative for seniors and enriches their lives."**

• **Quality housing for farmworkers.** In Salinas Valley, where farmworkers transformed buildings that were in a state of squalor into communities owned and democratically controlled by farmworker residents *(see Profile:* San Jerardo Housing Cooperative), cooperatives continue to provide affordable housing to this day (Heskin & Leavitt, 1995; California Center for Cooperative Development, 2017).

Efficient Use of Government Funds

LEHCs have proven to be a highly effective use of public funding; in addition to expanding home ownership opportunities, they:

• **Preserve naturally occurring affordable housing.** For half of a century in the United States, LEHCs have proven their ability to preserve housing affordability and support long-term residential stability (Green, 2018).

• **Reduce public expenditures.** A one-time public investment continues from one owner to the next through equity appreciation limits that maintain affordability over time, reducing per-beneficiary costs of public funding (Jacobus & Emmeus, 2010).

• **Out-perform other forms of housing.** LEHCs have proven to be more stable than typical affordable housing options. Even during economic downturns, LEHCs have had lower foreclosure rates than other forms of homeownership (Saegert & Benitez, 2005). They also have high rates of longevity and effective operations. A study of LEHCs in the District of

Columbia revealed nearly 80% of currently operating limited equity coops formed over 25 years ago were in stable or excellent condition (Figueroa et al., 2004).

Community & Social Benefits

LEHCs have been proven effective both in addressing barriers to traditional homeownership and in generating larger social benefits. The collective ownership and limited equity appreciation in LEHCs minimize housing externalities (such as neighborhood crime, vandalism, and drug use), increase financial stability, promote a sense of community, and protect low-income residents from gentrification (Perkins, 2007). For example, LEHCs:

• **Reduce costs while improving resident outcomes.** Conclusions from a variety of sources reveal that specific LEHC advantages include: lower operating costs than other forms of publicly subsidized housing, better housing conditions, promotion of resident economic resiliency, protection from gentrification, and lower vacancy/turnover rates compared to other alternative ownership forms (Sazama & Wilcox, 1995; Mushrush et al., 1997).

• **Encourage civic participation.** Research on 32 mutual housing associations (leasehold or zero-equity cooperatives) offers strong evidence that cooperative ownership gives rise to communities characterized by a strong sense of identity and civic engagement (Szylvian, 2015 and 2016).

• **Improve social outcomes.** 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 in all social indicators measured: crime, community involvement, social-emotional support, and overall satisfaction (Mushrush, et al., 1997).

SECTION 4:
WHAT MAKES HOUSING COOPERATIVES SUCCESSFUL?

Some 224 cooperatives in California include 17,247 households and 2,164 student residents. These cooperatives provide homes for differing types of households and for particular communities–for example, housing for farmworkers, seniors, low-income people, intentional communities, college students, and other special purposes. All share the common features of a housing cooperative: the residents co-own the development (either directly or through a nonprofit), democratically govern it, and equally share rights and responsibilities associated with that co-ownership.

To succeed over the long term, housing cooperatives need support. In this section we review the ecosystem of supporting organizations that assist with training and education, finance, and operations. In addition, we review best practices that have emerged as crucial to long-term success.

The Ecosystem

Housing cooperatives are surrounded by a robust ecosystem of supporting organizations. Cooperative Housing International, a division of the International Cooperative Alliance, promotes awareness and network building among housing cooperatives across the globe. Below is a description of the primary programs serving LEHCs in California today.

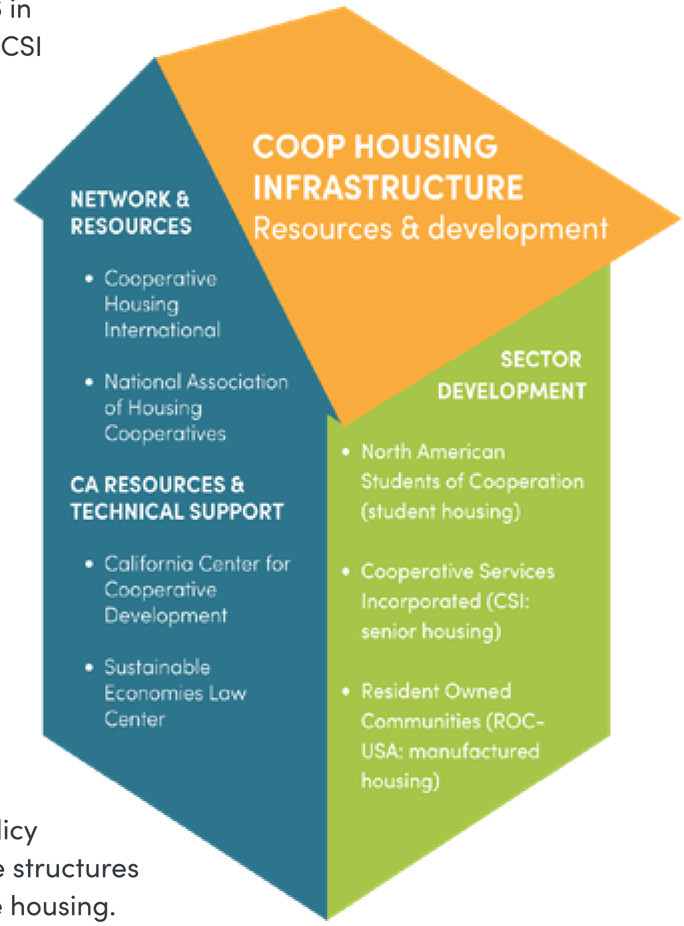
The National Association of Housing Cooperatives (NAHC) was founded in 1960 and provides research, training, education, and other services to members who represent 1,060 housing cooperatives with 118,329 units of housing across the nation. They convene a popular annual conference that typically includes between 360 to 400 attendees. Consistent with the history of urban LEHC development, a large percentage of NAHC's members are Black.

Twice a year NAHC offers courses in its Registered Cooperative Manager (RCM) certificate program; coop managers must be recertified every three years.

ROC USA® is a national nonprofit that provides financing and technical assistance to support the conversion of MHPs to resident ownership. Today, ROC USA works through a network of 13 certified nonprofit technical assistance provider affiliates in 12 states, including the California Center for Cooperative Development (CCCD). Nationally, affiliates have converted more than 260 manufactured home communities to cooperative ownership, for nearly 18,000 families.

The North American Students of Cooperation (NASCO) launched in 1968 with the support of existing national cooperative organizations. Its goal was to expand the cooperative movement across college campuses. Following a strong lobbying effort, federal legislation allowed programs to make direct low-interest loans for student housing coop development, which was used for housing development and rehabilitation at University of California's Berkeley and Los Angeles campuses. Housing cooperatives are usually the least expensive on- or near-campus housing for students. Although this legislation is still in existence, there is no longer any funding, which has slowed new development. Today NASCO includes 50 cooperatives that provide housing for about 4,000 students; member coops are eligible for NASCO training and education programs.

Cooperative Services Inc (CSI), a nonprofit that develops and manages senior housing, developed its first cooperative in 1965. Their mission to provide high-quality, affordable, resident-governed communities for seniors has remained constant as they have grown to 50 communities, with 7,000 members in four states–16 in California. Using the lease-hold/mutual housing model, CSI residents are low income and do not purchase a share; instead, residency is the basis for membership. CSI is committed to the cooperative model: residents are represented at every layer of CSI, including board representation at the national and state levels. Each community has its own governing board that directs their cooperative, from creating and overseeing the budget to selecting the color of the walls. Sources of funding for initial development of the communities included the U.S. Department of Housing and Urban Development (HUD), low-income housing tax credits, private foundations, and state and local governments.



Other support for housing cooperatives in California is provided by the California Center for Cooperative Development (CCCD) and the Sustainable Economies Law Center (SELC). CCCD provides technical assistance, including training and education, for existing cooperatives and development support to new cooperatives. SELC is a legal resource for cooperatives, providing advice, movement-building support, and policy advocacy for cooperative housing, CLTs and innovative structures creating affordable, community-controlled sustainable housing.

Best Practices

Cooperative members, developers, and researchers, over decades, have identified critical best practices that contribute to long-term success.

Education and Training

Principle five of the seven cooperative principles (see "Introduction") refers to the importance of ongoing education, training, and information for cooperative members. All members, but particularly those elected to the board of directors, need education and training to meet the demands and responsibilities of cooperative ownership. The board oversees management, engages in long-term planning, establishes policies, and leads the cooperative in accordance with the coop bylaws. Training in governance, roles and responsibilities, and financial oversight is essential to success.

A 25 year study of LEHCs formed in Washington, DC found that the most successful cooperatives had "an active and engaged board and membership" (Figueroa, 2004). While finding that LEHCs result in significant social benefits, one study noted that the biggest challenge to LEHC success is lack of information due to inadequate board training. Appropriate training, the researchers found, improves communication, participation, and cooperation among members (Lewis & Higgins, 2004).

Best practices include incorporating ongoing training into the annual operating budget and including training in the coop's annual calendar. Many cooperatives send members to national and regional conferences, such as the annual conference of the NAHC. Some cooperatives hire trainers to educate their boards. Other cooperatives form networks to share best practices and convene collaborative trainings. It is not uncommon for funders of cooperatives to require ongoing board education and training in the loan conditions.

Property Management

The property management needs of a cooperative share some similarities with rental housing, but they are also very different. In a coop, management reports to the resident board; in rentals, residents are subordinate to management. It is often difficult to secure management that is comfortable with, and respectful of, resident governance. Trust, transparency, and good communication between management, the cooperative board of directors, and the members are crucial.

The board should expect (and, if needed, insist) that management provide the financial information needed to govern the community, including monthly financial reports, vacancy rates, and reports on property conditions and maintenance issues. Best practices include sharing with the board regular analyses of financial reserves and a 30-year plan that includes major capital expenditures for expected replacements (e.g., roof, fencing), as well as large maintenance activities (e.g., exterior painting).

The more managers know and understand about the cooperative model the better; therefore, they should be encouraged to participate in educational activities, such as the NAHC RCM certificate program. In addition, NAHC's annual conference includes a track for property managers; the tradition of cooperative leaders and managers attending the same conference reinforces their mutual focus on success.

SECTION 5:
HOW HAVE LEHCS BEEN USED TO ADDRESS HOUSING INEQUITIES OVER THE COURSE OF THEIR HISTORY?

The development patterns of cooperatives in California, and in the rest of the nation are deeply related to housing development trends, regulations, and sources of funding. As shown below, they are also vulnerable to the social conditions, biases, and politics of their period in history—and these effects can last for decades.

The Exclusion of People of Color from Housing Programs

The United States established its first publicly funded housing programs as part of President F. D. Roosevelt's New Deal. These programs were explicitly racist. The Department of Public Works constructed public housing that was segregated by law. The Federal Housing Administration (FHA), created in 1934, insured bank loans for homes and subsidized builders who were mass-producing suburban homes for whites. African Americans were excluded from these housing developments and from the federally insured loans that allowed white families to purchase the homes (Rothstein, 2017). These practices continued even after California passed the Unruh Civil Rights Act, outlawing racial discrimination in 1959 (Ruffin, 2014); the U.S. Fair Housing Act of 1968 became law; and the Nixon administration developed new housing programs in the 1970s (Taylor, 2019).

Structural racism has persisted, continuing to shape the evolution of housing in the U.S. and California. Racist policies, regulations, and prejudices created practices such as redlining, deed restrictions, and development covenants as well as limited access to banking and credit (Taylor, 2019). Cooperative approaches to housing, credit, and banking, by contrast, offer alternatives designed to overcome these overwhelming racial barriers to fair housing (Gordon Nembhard, 2014). Cooperatives served to insulate members from some of the discriminatory practices because individuals do not have to qualify for a mortgage. As a result, the model became a significant source of homeownership for people of color.

> "Structural racism has persisted, continuing to shape the evolution of housing in the U.S. and California."

Early Housing Cooperatives Founded with High Ideals

Ethnic groups, unions, and nonprofit developers used New York State funding programs to develop the first affordable housing cooperatives. In 1930, the Amalgamated Clothing Workers Union developed a LEHC in New York City that spawned a "Coop City" that included 1,400 housing units. The cooperatives provided housing for Jews who were subjected to housing discrimination. Amalgamated principles stated that membership would be open to all without any restrictions to race, creed, or color, but there were few Black residents until the late 1960s. The cooperative continues to this day (Vozick Hans, 2007).

In 1949, in response to urban renewal and new legislation, education and religious institutions and community leaders joined with David Rockefeller to create a mixed-race housing development on the site of a once-thriving Black commercial epicenter-turned-post-Depression slum in Morningside Heights. The result: Morningside Gardens, a cooperative that housed 972 families when it opened in 1957 and continues its commitment to affordability through resale equity restrictions. The development has always housed mostly middle-class families, with about a third of the residents employed by neighborhood educational institutions. Notably, Morningstar Gardens has been home to prominent Black figures, including W.E.B. Du Bois, artists Aaron Douglas and Elizabeth Catlett, civil rights activist Roy Wilkins, and Justice Thurgood Marshall (Thompson, 2016).

California history, too, offers examples of how racism shaped developments trying to fight against it. In 1945, Stanford University faculty purchased land to develop Ladera Cooperative, a multiracial planned community. A year later, a group of Los Angeles animators founded Community Homes Cooperative as a racially integrated complex. Meanwhile, another development, Crestwood Hills, composed primarily of Jewish professionals, also sought to establish an integrated community in Los Angeles. In addition to challenges posed by neighborhood “white only” covenants, all three were refused loans from the FHA and faced extensive discrimination from other government agencies and private parties. Each fought their cases; Ladera and Community Homes ultimately decided to disband rather than abandon their plans for racial integration. Crestwood Hills, however, facing the added challenge of antisemitism that kept Jewish residents out of many communities, gave into pressure and finally built the development as an all-white community (Denzer, 2009).

The need to house workers also fueled the development of many California housing cooperatives. Atchison Village, an LEHC in Richmond, California, was built during World War II to lure needed shipbuilders. Despite the efforts of some to integrate, Atchison’s origins were as an all-white segregated community (Szylvian, 2015).

After the war, businesses and unions pushed for integrated workforce housing. The International Longshoremen’s and Warehousemen’s Union (ILWU) sponsored the development of St. Francis Square Cooperative in San Francisco. ILWU secured funding from the federal 213 program to support development.[3] Designed as an inclusive, ethnically diverse working-class community, it provided homes for workers of color who were blocked by redlining from moving into suburbia. The cooperative opened in 1964 with 299 units (Botein, 2015; https://sfsquarecoop.com).

[3] Section 213 insures mortgage loans to facilitate the construction, substantial rehabilitation, and purchase of cooperative housing projects. The program still exists but is significantly underfunded.

In the 1950s, when the Ford Motor Company moved their California plant from Richmond to Milpitas, the United Automobile Workers (UAW) assigned Ben Gross, chair of UAW Local 560's Housing Committee, to assure that all workers, regardless of race, had comfortable and affordable housing in Milpitas. To combat redlining that prevented Black workers from obtaining housing, the UAW initiated the development of a housing cooperative. Challenges fueled by racism were common: FHA refused a mortgage because of "design flaws," and local regulators and private contractors also challenged development. At one point the county tried to charge the development 100 times the cost that is usually charged for a sewer hook-up (Rothstein, 2017). Ben Gross used the law, as well as his own creativity, to overcome these obstacles. Gross' son related the following in an interview (paraphrased):

> ***There was a new home development of 63 homes in Sunnyhills [Milpitas] that would not sell to Blacks. Gross recruited Black congregants of the Methodist Church to bring their children and fly extravagant kites in the field adjacent to the model homes. The kites could be seen all around. White people would come to check it out, see that the families were Black, and drive by the model homes, assuming that they were for Blacks. This became a major concession from the contractors—stop those kids from coming down and flying those kites! (Sunnyhills, Milpitas School District, 2020)***

The persistence of Ben Gross paid off: The all-white community remained, but the developers stopped fighting the UAW's planned multiracial community. Sunnyhills Cooperative began construction in 1955 and grew to include 420 homes. In 1966, Ben Gross, Sr., became the first Black mayor of Milpitas.

1970s Federal Housing Policy Opened Cooperatives to People of Color

The growth of affordable housing cooperatives follows affordable housing policy and funding systems. In the 1950s, federal funding for the development of housing cooperatives grew, followed by new programs for low-income residents developed in the 1970s, including project-based Section 8 vouchers that are assigned to specific units for very low-income households. Cooperatives with very low-income residents continue to use these vouchers today.

Direct federal financing for housing cooperatives were incorporated into the Kennedy-Johnson legislation unofficially called the War on Poverty; while financing subsequently changed in structure, it continued for another two decades. These programs[4] were instrumental in a surge of LEHC development during that period. (Sazama, 2000). The Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA) of 1987 spurred additional growth. LIHPRHA created a conversion program to salvage earlier affordable projects whose owners were either leaving the affordable rental market at the end of their required 20-year holding period or were facing foreclosure by the U.S. Department of Housing & Urban Development (Fisher, 2018). The programs permitted transfer/purchase (for as little as $1) to housing cooperatives or tenant association ownership.

[4] These HUD funding programs included Section 213, 236, BMIR, and project-based Section 8 assistance.

The racial diversity of contemporary LEHCs is in part attributable to the HUD financing programs. For example, in the LIHPRHA program, the structural racism that kept Blacks out of suburbia and within inner cities placed them in the failed projects that became eligible for conversion to cooperatives under the law (see Rothstein, 2017). Despite the properties being plagued with the multitude of problems typical of mortgage defaults (such as deferred maintenance and high vacancy), residents took over ownership and most of the cooperatives have thrived over the long-term (Fisher, 2018; Figueroa, 2004).

SECTION 6:
WHAT FACTORS INHIBIT LEHC DEVELOPMENT?

A number of challenges and obstacles have inhibited LEHC development, including public policies, attitudes, and financing options.

Incompatible Policies and Regulations

Despite California having been the first state to formally charter LEHCs in 1979, its quagmire of housing regulations presents significant obstacles to LEHC development. Development regulations at the state level are found in the Civil Code, the Corporations Code, the Business and Professions Code, and Government Code. Because a cooperative is categorized as a "common interest" development, it is subject to California's Subdivided Land Laws, which govern condominiums, community apartments, and planned developments. These laws are not a good fit for cooperative development.

The Roberti Act

The 1979 Roberti Act instructs the California Department of Transportation (Caltrans) to give preference to resident groups forming LEHCs in the sale of surplus properties. Intended as a boost to cooperative development, it has become an impediment because of its limitations. Only a small number of properties have been successfully developed as LEHCs, including the so-called Route 2 developments established in the heart of Los Angeles in the 1980s. These developments succeeded because local champions, including some in city government, provided assistance to residents in organizing, navigating the system, and accessing funding.

The act has failed to facilitate the development of more cooperatives because of the way the regulations are structured. Residents have limited time to organize and bid on properties: 60 days to respond to notice of "Conditional Offer Prior to Sale," then 30 days to accept the sales agreement, and an escrow period of no longer than 120 days (with a possible 60-day extension). Those timelines are tight even in a traditional transaction, and with no provisions for any technical assistance to support residents in organizing or deciphering the many legal requirements, it is almost impossible.[5]

[5] These limitations explain why when legislation in 2018 ended a Caltrans' plan to extend Highway 710 in L.A. County, residents were unable to purchase homes for an LEHC. The tight timelines and lack of assistance for resident purchase left about 163 surplus homes vacant in an area with rampant homelessness, including homes in El Sereno, where police removed women and children who occupied the vacant homes in late November, 2020 (Los Angeles Daily News, 11-27-20).

California's Subdivided Land Laws and the Davis Stirling Act

California's housing cooperatives are regulated as common interest developments under the Subdivided Lands Law and Subdivision Map Act, the same laws that govern condominiums. These laws require parcel maps and subdivision public reports as prerequisites for building or converting an existing development to a cooperative, even though there are no divided parcels because the cooperative is one parcel of land financed with a mortgage on the entire development. An exemption from these requirements is possible, but sometimes more complicated than completing the Map Act requirements. Moreover, due to the Bureau of Real Estate's lack of familiarity with housing cooperatives, it can take up to six months to process a subdivision report for a housing cooperative.

The Davis Stirling Act is a lengthy set of regulations for common interest developments, intended to protect consumers in condominiums and planned developments. While many of the protections are applicable to cooperatives, many parts are not. Some sections are positioned as if residents own individual parcels, which is not consistent with the cooperative ownership of the entire property, and other sections have meeting and reporting requirements that are difficult for cooperatives. As additions or modifications to Davis Stirling are added, there is seldom consideration given for how they will affect cooperatives.

Remedies: More effectively define cooperatives and consider separating them from common interest developments. Work with the CA Department of Real Estate to streamline processes. To counteract problems with the Roberti Act, provide funding and technical assistance to tenant groups that organize to purchase state surplus properties. Distinguish cooperatives in Davis Stirling Act and exempt them from segments that do not apply.

Misperceptions, Generalizations, and Ignorance

A lack of awareness and misunderstanding of the cooperative model along with the valorization of single-family homeownership hampers the development of LEHCs.

Most LEHCs are successful and little noticed. But when a coop is dysfunctional or fails financially, it becomes highly visible and its troubles are often attributed to the cooperative structure. The reality is that foreclosures of cooperatives are lower than for every other form of affordable housing (Fisher, 2018; Saegert & Benitez, 2005).

“The reality is that foreclosures of cooperatives are lower than for every other form of affordable housing.”

The generalizations that arise from a cooperative's failure are related to perceptions of poor leadership or lack of competence among the resident owners. Widespread bias leads people to believe that people of color, low-income people, or people without a high level of formal education are unable to cooperatively own and govern their community. Such conclusions are prevalent even when the cooperative has professional property management or is incorporated into the portfolio of an affordable housing nonprofit. In fact, struggles to develop cooperatives can be a fight as much for "more dignity and self-respect than for property and more for gaining at least partial control over one's life than for accumulation" (Heskin & Leavitt, 1995).

Remedies: *Substantial research demonstrates the successes of LEHCs, which should be used to further education and outreach. However, this is not enough to counter negative perceptions of the competencies of people of color and structural racism. Policies that actively promote empowering housing strategies like LEHCs are needed to address institutional prejudice and discriminatory challenges.*

Institutional Entrenchment

Given the number of longstanding, thriving housing cooperatives in California and research documenting the success of the model, it is hard to understand why state leaders have ignored LEHCs as a solution to California's housing crisis. A case in point: the California Department of Housing and Community Development's 10-year plan, *California's Housing Future: Challenges and Opportunities* (2018), does not even mention housing cooperatives.

Considering the report's detailed assessment of California's severe housing affordability and equity challenges, the remedies presented are very general, focusing almost exclusively on encouraging more housing development by implementing and enforcing policies to increase production.[6] The report does not identify or discuss specific approaches to meet the varying housing needs presented, even though effective approaches, like cooperatives, are available. This gap does not appear to be an oversight as the California Center for Cooperative Development encouraged the inclusion of cooperatives in responses to the draft report issued by the state's Department of Housing and Community Development.

Remedies: *The California Department of Housing and Community Development needs to shift to a "problem-solving" approach and become more open to diverse strategies to address the state's severe housing crisis. The department could explicitly make LEHCs eligible for existing funding programs and embrace, in policy and practice, LEHCs as an effective strategy to address California's affordability crisis. Greater support for LEHCs would make other funders, including foundations and Community Development Financial Institutions (CDFIs), more likely to support their development as well.*

Financing Challenges

As a unique form of housing, LEHCs and their members face financing obstacles. LEHCs cannot be completely funded by residents. Many of the federal programs that previously provided funding for cooperatives have experienced decades of budget cuts. Moreover, in California, cooperatives are not explicitly recognized as an affordable housing option, making it more

[6] This traditional market driven approach lacks strategy and is unlikely to produce ownership opportunities for low and moderate income households. Most construction in California is concentrated on high-tier construction rather than lower-priced beginner homes, because this yields builders the highest profit (Crane et al., 2019; Rodriguez-Pose, 2019).

difficult to access public subsidies for development. Finally, large financial institutions have inconsistent loan policies from state to state–for example, many national HUD-certified private financial institutions recognize cooperatives as eligible for loans in NY, but not in California. Other banks avoid lending to cooperatives altogether because they are unfamiliar with them.

Remedies: *A first step to easing financing challenges is to increase awareness of existing sources of share loans and blanket mortgages. To expand the number of lenders, financial institutions must be educated about LEHCs and their needs. Because of their lack of familiarity with cooperatives, these institutions do not necessarily know that cooperative blanket mortgages are low risk or that a share loan is no different than other personal loans. Where banks and financial institutions in California have branches in New York that finance cooperatives, they should be encouraged to expand these programs to our state. California also needs to explicitly make cooperatives eligible for all affordable housing financing initiatives. Designing programs specifically for LEHCs could expand development more quickly. Finally, the federal government should expand its support for LEHCs by fully funding existing HUD programs.*

Disinterest among Nonprofit Affordable Housing Developers

Nonprofit affordable housing developers show little interest in developing LEHCs, despite that opportunities brought by cooperatives are consistent with their mission to provide stable, affordable housing for low- and moderate-income residents. LEHCs are explicitly permitted under federal law to accept public subsidies, including project-based Section 8 subsidies and vouchers and, therefore, can provide housing for very low-income residents. LEHCs can also provide a needed next step for residents in affordable housing who have experienced income gains that put them above the required threshold for subsidized housing but for whom market prices remain challenging.

Among the reasons nonprofit developers have resisted developing LEHCs is financing. In 1986 Congress enacted the Low-Income Housing Tax Credit (LIHTC) to incentivize investors to finance the acquisition, construction, and rehabilitation of rental housing for low-income households. State laws were passed over the years to complement the LIHTC and it has become the go-to financing source in the affordable housing industry. Restrictions make it almost impossible to use LIHTC for cooperative development in California. Although there are other strategies for funding LEHCs, affordable housing developers have become so dependent on tax-credit funding that they no longer believe that affordable housing can be developed without it.

> "California needs to explicitly make cooperatives eligible for all affordable housing financing initiatives."

Nonprofit developers steer clear of cooperative development for another reason as well: many share with policymakers and others the perception that low-income households/members are incapable or unwilling to take responsibility for their housing (Sazama & Wilcox, 1995; interviews with developers). This interferes with their role in preparing residents to become involved in and manage the cooperative. Nonprofit developers are neither trained in—nor comfortable with—providing this education.

Remedies: *Provide incentives and resource materials for nonprofit developers to encourage interest in LEHC development as a new-to-them approach to expanding housing affordability and help them become more comfortable with non-LIHTC funding sources. Affordable developers can partner with cooperative specialists to engage resident members and provide governance training and support.*

Loss of Existing, Naturally Occurring Affordable Housing: Manufactured Home Communities

California shares with many states two contemporary trends. First, mobile home parks are mainstays of affordable housing. Second, major investors are purchasing these parks and driving up the purchase price and land rental fees for residents who own the manufactured home but rent the space it sits on (Forhoohar, 2020).

A John Oliver segment sheds some light on investor interest in MHPs. Oliver introduces Frank Rolfe, who in his audio training course "How to Buy, Operate, Turnaround and Sell a Mobile Home Park," makes the case: "One of the big drivers to making money is the ability to increase the rent .... If we didn't have them hostage, if they weren't stuck in those homes in the mobile home lots, it would be a whole different picture" (Oliver, 2019).

Remedies: *Promote cooperative ownership of MHPs. California has funding to assist residents in obtaining ownership through two financing programs: the state-funded Mobile Home Park Rehabilitation and Resident Ownership Program (MPRROP) and the national nonprofit ROC USA. But the state does not require park owners to inform residents of their intention to sell or provide residents the first opportunity to purchase the park. Such Opportunity-to-Purchase laws exist in other states and are effective in preserving affordable housing. California should adopt similar legislation and consider standardizing and strengthening related change-of-purpose laws to limit the ability to convert MHPs into individual single-family home or condo parcels, which can displace residents.*

SECTION 7:
RECOMMENDATIONS

To overcome the barriers to LEHC development discussed above, we recommend a set of actions to increase visibility and understanding of the model; integrate LEHC development into California's affordable housing strategies; and reform legislative and regulatory frameworks that inhibit development.

1. Increase visibility of LEHCs through education and technical assistance to broaden knowledge and understanding.

a) Educate policymakers, financial institutions, and affordable housing developers about LEHCs, including financing mechanisms. A widespread lack of awareness and pervasive misperceptions have stymied the development of LEHCs. Effective outreach and education will increase the visibility of the model so financial institutions include them in their eligibility portfolio, policymakers recognize LEHCs as a cost-effective use of public funding, and developers are more aware of the model.

b) Provide LEHC purchase preferences for surplus property and include technical assistance for residents to form and finance LEHC development. Caltrans Surplus Land Regulations[7] that specifically prioritize resident purchase as a cooperative are underutilized, demonstrating the importance of coupling such statutes with technical assistance and reasonable timelines to enable the opportunity. Resident purchase as an LEHC should also be given priority in the purchase of other surplus properties at the state and regional levels, with cooperative conversion, legal, and other technical assistance provided for resident groups interested in forming and financing a cooperative to remain in their homes or to make vacant properties available for occupancy. Incorporating sufficient time for the purchase is also essential.

c) Require (and, when necessary, finance) annual governance education as part of the operating budget of LEHCs. Effective governance is strongly associated with cooperative success and is also a cooperative principle. This should be recognized by funders as a crucial budget item for cooperatives.

[7] Govt Code § 54237(d)(1)(B).

WHAT IF... $25 Million for LEHC Strategy?

We asked ourselves a provocative question: how could California utilize a significant investment in cooperatives, $100 million for example, to address the crises in housing, quality jobs and childcare? Our "WHAT IF" scenario allocates $25 million to housing coops.

How could a major investment in Limited Equity Housing Coops (LEHCs) best be used to address California's housing crisis? We recommend the bulk of the funding be used to incentivize nonprofit housing developers. Also important are funds to educate stakeholders and support resident organizing.

1. $20 million funding for pre-development grants to nonprofit housing developers to initiate LEHC development (up to $2 million each).
2. $4 million for technical assistance for residents to organize cooperatives and initiate due diligence to purchase surplus property for LEHCs.
3. $1 million to educate policymakers, financial institutions, developers, and the public about LEHCs.

2. Expand LEHC development and innovations.

a) Incorporate the LEHC model into the state's strategy to expand reasonably priced homeownership opportunities and to solve workforce housing shortages. California's housing plan should require new development to include LEHCs and similar structures to assure affordability and inclusive ownership opportunities. The state should partner with regional governments to create regulations that promote LEHCs for workforce housing to meet the needs of teachers, service workers, nurses and other medical personnel, university staff, and others.

b) Identify LEHCs as eligible for all affordable housing and home ownership funding programs. Explicitly naming LEHCs as eligible for state housing financing programs will reduce confusion and promote growth. Cities can support cooperative housing development by similarly highlighting LEHC eligibility and by exempting LEHCs from incompatible ordinances that relate to other common interest developments such as condo conversion ordinances.[8]

c) Recognize the role LEHCs play in providing affordable units in integrated housing development schemes. Cities that incorporate affordability requirements into approvals for new housing development should incorporate diverse strategies to achieve these goals. By expanding existing ordinances to include strategies that promote LEHC development, cities can effectively use public funds to create ownership opportunities for those locked out of the traditional homeownership market.

d) Promote housing justice by encouraging innovative models that include LEHC components. California needs diverse strategies to address its housing crisis, and models that incorporate cooperative principles should be encouraged. As discussed above, a promising approach is combining the LEHC with a CLT.[9] Scalable models, like ROC USA, that position residents of MHPs as competitive buyers is another innovative approach. New approaches, such as the East Bay Permanent Real Estate Cooperative, which uses a multi-stakeholder cooperative model, should also be encouraged.

3. Reform legal and regulatory frameworks.

a) Address the myriad of regulatory conflicts that stymie LEHC development and develop long-term remedies, such as legally distinguishing cooperatives from the broad swath of common-interest developments. By doing so, the legislature could exempt cooperatives from incompatible requirements in the Subdivision Map Act and Subdivided Lands, as well as those in the Davis Stirling Act, which present barriers to cooperative development. A clearer definition of cooperatives would also avoid problems that continue to be created by laws developed to solve problems with common interest developments but which inadvertently hurt cooperatives.

b) Develop Tenant Opportunity to Purchase (TOPA) initiative for tenants in rental properties and MHPs. Notifying residents when the property they reside in will be offered for sale, and then giving residents the first opportunity to purchase, is a legal requirement in many other states and should be a part of California statutes. When the purchase results in an LEHC, the result affects immediate as well as future members by enabling them to remain in their neighborhoods despite gentrification, providing them with the stability of ownership, and promoting more diverse and healthier neighborhoods.

[8] Some cities have such ordinances so there are examples for replication.

[9] This model is not superior to the development of independent LEHCs (see chart, p. 9) but it is a useful addition to the landscape and can be effective in scaling the development of LEHCs.

c) Adopt statutes that foster the conversion of manufactured home parks to resident cooperatives to preserve naturally occurring affordable housing. Investors are actively buying up this bastion of affordable housing in California and around the nation. Reforms could limit investor predatory practices and resident displacement by regulating land-use conversions (including condominium conversions); providing residents the first Opportunity-to-Purchase; and minimizing obstacles to resident ownership, including recognizing that a transition to resident ownership is not the same as a "change in use."

d) Allow LEHCs to qualify for welfare tax exemptions when they have households that qualify for housing subsidies. Affordable rental housing automatically receives a welfare tax exemption, while LEHCs with the same income composition do not. One reason given for this is that coop members are eligible for the Section 218 homeowner's tax exemption. The welfare tax exemption should be granted for LEHCs that qualify by exchanging the very small tax benefit to individual coop members with a much larger tax benefit to the cooperative, which will reduce costs to members. The exemption could be apportioned according to the percentage of members who are income-eligible so as not to undermine local tax revenues.

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Mercedes Amezquita, cooperative member
(Image: Real Rural/Lisa M. Hamilton)

San Jerardo Housing Cooperative:

40 Years Strong

Salinas, California

San Jerardo Housing Cooperative, a 60-unit limited equity housing cooperative (LEHC) located in the agricultural area south of Salinas, has brought benefits to multiple generations over 40 years. It emerged out of the struggle to improve living conditions and homeownership opportunities for farmworkers in the Salinas Valley. San Jerardo is one of the many success stories of the United Farm Workers.

In the mid-1970s, La Posada Trailer Park, which housed farmworkers, was sold, leading to evictions. In response, farmworkers squatted on Camp McCullum, which included barracks and offices built by the U.S. Army and was used, in the 1950s, as housing for farmworkers in the Bracero program. Following negotiations, the owner of the Camp McCullum property agreed to sell the property to the farmworkers. With assistance from the California Coastal Rural Development Corporation, the workers were able to secure financing to buy the land and buildings. The LEHC structure, which would keep the property affordable in perpetuity, was the best way to address farmworkers' specific circumstances and to manage the financing.

Upon taking possession of the land and vacant buildings, the group was cash poor, so cooperative members volunteered their time to bring the buildings to a habitable state. The volunteer labor enabled the cooperative to establish affordable monthly payments that continue to this day. San Jerardo residents pay monthly assessments (the equivalent of a mortgage or rent) of $500 for two-bedroom units and $900 for four-bedroom units in a region where two-bedroom apartments rent for $1,200. The low monthly payments leave members with disposable income, which they have used to pursue dreams that were previously unattainable.

Horacio Amezquita pictured
(Image: Real Rural/Lisa M. Hamilton)

With housing stability provided by the cooperative, founding families did not have to worry about constant rent increases or evictions and instead started saving. The founders saved for their children's college funds, and those children were the first to graduate with degrees. Some saved to start independent businesses, such as a bakery, a trucking business, and a construction company that are still in operation. While housing multiple generations of some families, the cooperative also welcomes new members who share in the benefits of affordability and the opportunities the coop offers.

Today, the cooperative is managed by Horacio Amezquita, a California State University Monterey Bay graduate in business administration, and son of one of the founding families. The second generation of residents has benefited the most from living in San Jerardo Cooperative. Of the 40 founding members, 25 still live there, now mostly retired. As of 2020, none of the founding members' families are field workers; instead, those in agriculture are in management positions. With new members joining all the time, the coop continues to provide vital housing for farmworkers.

Horacio Amezquita, San Jerardo's General Manager (Image: Real Rural/Lisa M. Hamilton)

The cooperative uses creative strategies to keep assessments low, while providing additional services to the larger community. For example, the cooperative's clubhouse, which is designed to host large gatherings, is available to the larger Salinas community to rent. It is an attractive venue for hosting birthday parties, wedding receptions, baby showers, and even a monthly church service and yoga class.

In the 1980s, the cooperative secured financing from the Joe Serna Farmworker Fund to renovate a building they had not been able to remodel on their own. It was converted to a Head Start childcare center. Initially, the program was for the children of the founders, but now these families' incomes are high enough that they do not qualify for Head Start. The San Luis Obispo Community Action Partnership rents the building for a program serving the children of migrant farmworkers whose needs are greater.

Some 40 years after struggling to secure housing, San Jerardo Cooperative faced a new challenge. The three wells providing the community's water were found to be tainted with toxic agricultural chemicals. This impending disaster could have resulted in displacing the residents, but their advocacy, supported by law students from University of California, Hastings College of the Law, engineering students from California Polytechnic State University, San Luis Obispo and others, ultimately led to the construction of a new water system by Monterey County. Post construction, the county placed the water system up for private sale. Members of San Jerardo, who would be the only customers of the privately run system, worried that a new owner would raise water prices unreasonably, so the coop submitted a bid to purchase the water system.

After satisfying the county's concerns that San Jerardo could operate their own water treatment facility, members worked on acquiring the necessary funding. The cooperative formed a mutual water company with community residents as its shareholders. In addition to loans from financial institutions, the cooperative asked the children of the founders (some who were members and others who were not) for assistance. So far, 15 of these family members have agreed to put in $6,000 each to help pay off the loan. The cooperative is on track to gain full ownership of the water system in late 2021.

The members of San Jerardo Cooperative have used the affordability and stability of their cooperatively owned housing to improve the quality of life for more than 400 people who have lived there over the last four decades. As the coop moves to provide these benefits to new members, they are also assuring that the next generation of members have the same access to affordable, high-quality housing, as well as vital community infrastructure with clean water.

California Statutes & IRS Codes Regulating Housing Cooperatives

Housing Cooperatives under California Law

Housing cooperatives and housing cooperative trusts provisions exist in multiple sections of California's statutory codes, including Civil Code Part 2, Real or Immovable Property, sections 817 to 817.4 and Part 5, Common Interest Developments, section 4190, as well as in California Business and Professions Code 11003.4. Other relevant statutory provisions that impact the development of housing cooperatives are explained more fully in the Housing Cooperatives Chapter of this report including the Davis-Stirling Act, the Subdivided Lands Law, and Subdivision Map Act.

Defining housing cooperatives:
Housing cooperatives are considered "stock cooperatives" under the California Civil Code 4190 which means the cooperative is "a development where a corporation is formed or availed of, primarily for the purpose of holding title to ... improved real property, and all or substantially all of the shareholders of the corporation receive a right of exclusive occupancy in a portion of the real property, title to which is held by the corporation. The owners' interest in the corporation, whether evidenced by a share of stock, a certificate of membership, or otherwise, shall be deemed to be an interest in a common interest development and a real estate development for purposes of subdivision (f) of Section 25100 of the Corporations Code." Corporations Code Section 25100 provides a series of exemptions to the offer, sale, filing, and nonissuer transaction requirements of securities under California law.

Limited equity housing cooperatives requirements:
The definition and requirements of limited equity housing cooperatives (LEHCs) can be found in Civil Code sections 817. An LEHC is a corporation organized on a cooperative basis that meets the following requirements:

• **Not-for-profit incorporation:**
LEHCs are meant to provide housing that is not based on the speculative nature of the market and, therefore, must be incorporated to meet that purpose. LEHCs are usually incorporated as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation. If the corporation is a nonprofit mutual benefit corporation then the title for the property must include a condition for reversion of the property to a public or charitable entity upon dissolution of the corporation.

• **Built-in non-extractive regulations:**
LEHCs also have essential regulatory mechanisms that keep their property affordable and off the speculative real estate market, for example by limiting share price increases in a sale when a member leaves the cooperative. Section 817 (b) (1) requires the corporation, to limit the transfer value of memberships in their articles of incorporation or bylaws to the aggregate of the following:

- the consideration paid for the membership by the first occupant;
- the value of any improvements installed at the expense of the member with the prior approval of the board; and
- accumulated simple interest based on an inflationary index, such as a cost-of-living index, that is limited to no more than a 10% annual increase.

• **Prohibitions on transfers for current members:**
The LEHC Board of Directors is prohibited from returning transfer value, either in full or in part, to an existing member, and members are prohibited from receiving the return of their transfer value while they are still a member.

• **Corporate equity for perpetuity of purpose:**
The law prevents a sale or conversion of the entire cooperative by specifying that any proceeds be dedicated to a public or charitable purpose (i.e., members may not benefit financially). The law states (817 (d)) that any *corporate equity*, which is defined as the excess of the value of the property over the sum of the transfer values reduced by the principal balance of outstanding loans, can only be used for the benefit of the corporation or the improvement of the real property, the expansion of the corporation by acquisition of additional real property, or for public benefit or charitable purposes. This includes at the sale of the property or dissolution of the cooperative where the corporate equity is required to be used for a public or charitable purpose. This provision assures that members do not sell the property to a real estate speculator, who will convert the market rate housing for sale or rent.

• **Supermajority threshold for amendments:**
To increase resident-owner member protections, it is legally mandated that amendments to the bylaws and articles of incorporation have an affirmative vote of at least two thirds of the members.

Protections of LEHCs:
The California Business and Professions Code Section 817.2 provides protective procedures for the dissolution of LEHCs that receives or has received a public subsidy, such as holding a public hearing, giving notice to all interested parties (which may include all other LEHCs and cooperative development organizations in the state provided by the California Center for Cooperative Development), and merger requirements with the geographically closest cooperative or trust.

Housing Cooperatives & the Internal Revenue Service

The IRS has a definition for housing cooperative corporations in their section on tax deductions for housing cooperatives found in 26 U.S. Code § 216. The tax benefit they would receive from this section isn't as relevant to many housing cooperatives in California because they are typically formed as nonprofit corporations and, therefore, need to comply only with the California state and local regulations around housing cooperatives. Under the IRS definition, a *cooperative housing corporation* means that the corporation:

A. Has one and only one class of stock outstanding,

B. Each of the stockholders who are entitled, solely by reason of their ownership of stock in the corporation, to occupy for dwelling purposes a house, or an apartment in a building, owned or leased by such corporation,

C. No stockholder who is entitled (either conditionally or unconditionally) to receive any distribution not out of earnings and profits of the corporation except on a complete or partial liquidation of the corporation, and

D. Meeting one or more of the following requirements for the taxable year in which the taxes and interest described in subsection (a) are paid or incurred:

(i) 80% or more of the corporation's gross income for such taxable year is derived from tenant-stockholders.

(ii) At all times during such taxable year, 80% or more of the total square footage of the corporation's property is used or available for use by the tenant-stockholders for residential purposes or purposes ancillary to such residential use.

(iii) 90% or more of the expenditures of the corporation paid or incurred during such taxable year are paid or incurred for the acquisition, construction, management, maintenance, or care of the corporation's property for the benefit of the tenant-stockholders.

Many LEHCs in California have either 501(c)(3) or 501(c)(4) tax status and are therefore exempt from income tax. All LEHCs are nonprofit; they operate at cost, and LEHCs that operate under specific affordability conditions can usually qualify for 501(c)(3) status because they are organized and operated to provide low-income housing to the public on terms specified by either the safe harbor or facts and circumstances test of Rev. Proc. 96-32.

LIST OF CALIFORNIA HOUSING COOPERATIVES

COOPERATIVE NAME	COOP TYPE	DESIGNATED POPULATION[1]	STRUCTURE[2] (if aplicable)	CITY	# UNITS[3]	YEAR FOUNDED (if known)
1080 Chestnut	Market Rate			San Francisco	55	1960
1090 Chestnut Street	Market Rate			San Francisco	60	1927
1274 Filbert Street	Market Rate			San Francisco	8	1941
1901 California Street Association	Market Rate			San Francisco	11	1949
1940 Vallejo Street	Market Rate			San Francisco	11	
2000 Washington Street	Market Rate			San Francisco	7	
2100 Pacific Avenue	Market Rate			San Francisco	18	1962
2127 Broadway Street	Market Rate			San Francisco	7	
2288 Broadway Street	Market Rate			San Francisco	9	
2298 Pacific Avenue	Market Rate			San Francisco	9	1953
2500 Steiner Street/Alta Plaza Apartments	Market Rate			San Francisco	12	
2555 Larkin Street Corporation	Market Rate			San Francisco	5	
45th Street Artists Cooperative	Limited Equity			Emeryville	60	1973
4-Streets Coop of RTE	Limited Equity			Los Angeles	40	1982
9th Street Cooperative	Limited Equity			Berkeley	5	1986
Acama Ardmore Cooperative Estates	Limited Equity			Studio City	24	1958
Addison Court Housing Cooperative	Limited Equity			Berkeley	10	1996
Agpar Cooperative	Limited Equity			Emeryville	6	2003
Alta Apartments	Limited Equity			San Francisco	12	1926
Amar Plaza	Limited Equity			La Puente	96	1972
Amma Corp	Limited Equity			San Francisco	57	1947
Ammel Park Cooperative Homes	Limited Equity			San Francisco	120	1974
Anchor Down Owners Association	Limited Equity			El Cajon	68	1997
Antonelli Mobile Home Park		Senior	MHP	Santa Cruz	57	1972
Aptos Knoll Mobile Home Park		Senior	MHP	Aptos	75	1998
Astoria Gardens	Limited Equity			Sylmar	136	1994
Atchison Village Mutual Homes Corporation	Limited Equity			Richmond	450	1956
Baker's Dozen	Limited Equity			Wrightwood	12	1970
Baldwin Imperial Apt. Homes	Limited Equity			Los Angeles	15	1958
Banneker Homes	Limited Equity			San Francisco	108	1967
Base Line Coop	Limited Equity	Senior		San Bernadino	75	1950

LIST OF CALIFORNIA HOUSING COOPERATIVES, *continued*

COOPERATIVE NAME	COOP TYPE	DESIGNATED POPULATION[1]	STRUCTURE[2] (if aplicable)	CITY	# UNITS[3]	YEAR FOUNDED (if known)
Crown Towers Apartments	Market Rate			San Francisco	23	1952
Croydon Park Homeowners Association	Limited Equity			Pasadena	20	2002
Derby Walker House Cooperative	Limited Equity		Shared Home/ Land Trust	Berkeley	6	
Desert Dorado Villas	Limited Equity			Palm Springs	49	
Diamond View Residents Assn.	Limited Equity			San Francisco	58	1993
Dos Pinos Housing Cooperative	Limited Equity			Davis	60	1984
Dover Mobile Home Park	Limited Equity		MHP	Fairfield	210	
Doyle Street Cohousing	Cohousing			Emeryville	25	1992
Eastern Gardens Cooperative	Limited Equity			Sacramento	112	1971
El Bethel Arms	Leasehold	Senior		San Francisco	255	1972
El Rio Mobile Home Park	Limited Equity		MHP	Santa Cruz	48	1987
Eucalyptus Towers Coop	Leasehold	Senior		Moreno Valley	70	2004
FAHA Palms Cooperative		Senior		Sonoma	16	1986
Fairview House	Limited Equity			Berkeley	5	
Fish House Cooperative	Limited Equity		Shared Home	Berkeley	4	
Florin Gardens Coop	Limited Equity			Sacramento	72	1966
Florin Gardens Coop East #2	Limited Equity			Sacramento	52	1972
Florin Gardens Cooperative East #1	Limited Equity			Sacramento	112	1970
Fontana East Apartment Corporation	Limited Equity			San Francisco	135	1966
Fort Awesome	Limited Equity		Shared Home	Berkeley	2	
Fort Radical	Limited Equity		Shared Home	Berkeley	2	
Fountain Manor Estates	Limited Equity			Los Angeles	20	1958
Freedom West I	Limited Equity			San Francisco	192	1973
Freedom West II	Limited Equity			San Francisco	190	1973
Fruitvale Housing Collective	Limited Equity		Shared Home	Oakland	3	1997
Gardena Valley Towers Coop	Leasehold	Senior		Gardena	80	1999
Glenridge Apartments	Limited Equity			San Francisco	275	
Glenridge Cooperative	Limited Equity			San Francisco	209	
Golf Green Mobile Home Estates	Limited Equity		MHP	Sacramento	185	
Grandview Mobile Home Park	Limited Equity		MHP	Lomita	40	
Hacienda Family Park	Limited Equity		MHP	Fallbrook	25	
Heron Court Cooperative	Limited Equity			Redwood City	104	1983
Hogan House	Limited Equity			Oakland	3	1999

LIST OF CALIFORNIA HOUSING COOPERATIVES, *continued*

COOPERATIVE NAME	COOP TYPE	DESIGNATED POPULATION[1]	STRUCTURE[2] (if aplicable)	CITY	# UNITS[3]	YEAR FOUNDED (if known)
Hollywood West Apts.	Limited Equity			Los Angeles	20	
Homestead Cooperative	Limited Equity			Davis	21	
J Street Cooperative	Leasehold			Davis	9	1986
Jackson Terrace	Limited Equity			San Francisco	9	
John Muir Homes #1				Martinez	72	
John Muir Town Homes	Limited Equity	Senior		Martinez	162	1968
Jones Memorial Homes II	Limited Equity			San Francisco	103	
Kimberly Gardens Mobile Homes	Limited Equity	Farmworker	MHP	Lake Forest	159	
La Buena Esperanza Coop	Limited Equity			King City	40	1984
La Mirada	Limited Equity			San Francisco	70	
La Ronde Cooperative	Limited Equity			Los Angeles	20	1982
Laguna Heights	Limited Equity			San Francisco	12	
Las Casas de Madera Cooperative	Limited Equity	Farmworker		Salinas	75	1982
Las Casitas de Voluntario	Limited Equity	Farmworker		Santa Barbara	11	
Leisureville Mobile Home Park	Limited Equity	Senior	MHP	Woodland	150	
Loren Miller Homes	Limited Equity			San Francisco	105	
Los Angeles Eco Village	Limited Equity			Los Angeles	14	1993
Magnolia Towers Coop	Leasehold	Senior		North Hollywood	200	
Maplewood Apartmen	Market Rate			Los Angeles	16	
Marathon Cooperative	Limited Equity			Los Angeles	66	1993
Mariposa Grove CoHousing	Limited Equity			Oakland	20	1998
Mariposa Villa Coop	Leaseholds	Senior	Land Trust	Irvine	40	
Martin Luther King Marcus Garvey Square Apartments	Limited Equity			San Francisco	211	
Mayfair Golden Manor	Limited Equity	Senior		San Jose	210	
Maywood Manor Coop	Leasehold	Senior		Maywood	55	
Meadowlark Manor Coop	Leasehold	Senior		Gardena	74	
Midtown Park Apartments	Limited Equity			San Francisco	140	1958
Moorpark Ardmore Coop Estates	Market Rate			Studio City	12	
Mountain Brook Mobile Park	Cohousing	Senior		Scotts Valley	44	
Muir Commons Homeowners Association	Leasehold			Davis	26	
N Street Coop	Limited Equity			Davis	19	
Neary Lagoon Cooperative	Limited Equity			Santa Cruz	95	

LIST OF CALIFORNIA HOUSING COOPERATIVES, *continued*

COOPERATIVE NAME	COOP TYPE	DESIGNATED POPULATION[1]	STRUCTURE[2] (if aplicable)	CITY	# UNITS[3]	YEAR FOUNDED (if known)
Ninth Street Cooperative	Limited Equity		Land Trust	Berkeley	5	1986
Northridge Cooperative Homes	Limited Equity			San Francisco	300	1984
Nu-Way Mobile Home Park	Limited Equity	Senior	MHP	Carson	39	1962
Oak Crest EstatesCooperative	Limited Equity	Senior	MHP	Fallbrook	105	1984
Oak Knoll Apartments	Limited Equity			Sausalito	7	1965
Oregon Park Senior Apartments Coop	Market Rate	Senior		Berkeley	47	
Oxnard Ardmore Cooperative Estates	Leasehold			North Hollywood	60	1960
Palm Terrace Coop I	Leasehold	Senior		Ontario	91	
Palm Terrace Coop II	Limited Equity	Senior		Ontario	48	
Parker Street Cooperative	Limited Equity			Berkeley	24	
Parkview Manor - Lockland	Limited Equity	Senior		Los Angeles	28	
Pecan Park Mobile Home Estates	Limited Equity		MHP	El Cajon	128	1972
Pilgrim Terrace Cooperative Homes	Limited Equity	Senior		Santa Barbara	83	
Ponderosa Estates	Limited Equity	Senior		Marin City	56	1980
Ponderosa Pines Mobile Home Owners	Limited Equity		MHP	Grass Valley	139	1985
Prince Hall Apartments	Limited Equity			San Francisco	92	
Purple House	Limited Equity			San Francisco	10	2012
Purple Rose Collective	Limited Equity			San Francisco	11	1978
Queensland Manor Cooperative South	Limited Equity			Los Angeles	96	1959
Ratzlesnatch Cooperative	Market Rate		Shared Home	Berkeley	3	1977
Redding Gardens Cooperative	Limited Equity			Redding	120	
Redwood Gardens	Limited Equity	Senior		Berkeley	169	1986
River Community Homes	Limited Equity			Arcata	40	
Riverside Braemar	Limited Equity			Riverside	90	1957
Rossmoor First Mutual	Limited Equity	Senior		Walnut Creek	1878	
Rossmoor Mutual Eight	Limited Equity	Senior		Walnut Creek	103	
Rossmoor Second Mutual	Limited Equity	Senior		Walnut Creek	1387	
Royal Adah Arms	Market Rate			San Francisco	142	
Royal Palms Apartments	Market Rate			Covina		1955
Royal Towers Apartment Corporation	Limited Equity			San Francisco	75	1964
San Jerardo Cooperative	Limited Equity	Farmworker		Salinas	67	1979
San Pedro Townhouse #1/ Allenhurst Apartments	Limited Equity			Los Angeles	8	

LIST OF CALIFORNIA HOUSING COOPERATIVES, *continued*

COOPERATIVE NAME	COOP TYPE	DESIGNATED POPULATION[1]	STRUCTURE[2] (if aplicable)	CITY	# UNITS[3]	YEAR FOUNDED (if known)
San Pedro Townhouse #2	Limited Equity			Los Angeles	4	
San Rafael Manor	Market Rate			San Rafael	160	1994
Sandyland Coop Apartments	Limited Equity			Carpinteria	24	1978
Santa Rosa Creek Commons	Limited Equity			Santa Rosa	27	1982
Savo Island Cooperative Homes	Limited Equity			Berkeley	57	1980
Seminole Springs Mobile Home Park	Market Rate		MHP	Cornell	215	1986
Seven Acres Coop	Limited Equity			Soquel	4	
Sherwood Lake Mobile Home Park	Limited Equity	Senior	MHP	Salinas	150	1960
South Bay Coop	Leasehold	Senior		Lawndale	56	
South Park Manor	Leasehold	Senior		Gardena	126	
Southgate Town and Terrace Homes	Limited Equity			Sacramento	100	
Sparks Way Commons	Limited Equity			Hayward	45	1985
St. Francis Square Cooperative	Limited Equity			San Francisco	299	1962
Sunset View Estates	Limited Equity			Ukiah	106	1955
Sunwise Cooperative	Leasehold			Davis	3	1978
The Comstock Apartment Corporation	Limited Equity		Shared Home	San Francisco	130	1959
Turning Point Commons Apartments	Limited Equity			Chico	66	1982
Union Terrace Corporation	Market Rate			San Francisco	29	1920
Unity, Peace & Freedom (Unity Homes)	Limited Equity			San Francisco	94	1973
University Avenue Cooperative Homes	Limited Equity			Berkeley	47	1905
Villa Santa Cruz Cooperative	Market Rate	Senior		Santa Cruz	121	1985
Vista de la Terraza Cooperative	Limited Equity	Farmworker	MHP	Salinas	40	
Vista Del Monte Coop	Leasehold	Senior		Palm Springs	51	
Vista Serena Coop	Leasehold	Senior		Palm Springs	51	1975
Walnut House Cooperative	Limited Equity			Berkeley	22	1959
Winton Grove Homes	Limited Equity			Hayward	62	2021
Woods Cooperative Association	Limited Equity	Senior	MHP	Little River	109	1966
Woodstock Homes	Market Rate			Alameda	200	

LIST OF CALIFORNIA HOUSING COOPERATIVES, *continued*

COOPERATIVE NAME	COOP TYPE	DESIGNATED POPULATION[1]	STRUCTURE[2] (if aplicable)	CITY	# UNITS[3]	YEAR FOUNDED (if known)
University of California, Berkeley						
UCB: African American Theme House Student Coop	Leasehold	Student		Berkeley	21	1997
UCB: Andres Castro Arms	Leasehold	Student		Berkeley	56	1971
UCB: Casa Zimbabwe	Leasehold	Student		Berkeley	124	1966
UCB: Cloyne Court	Leasehold	Student		Berkeley	140	1946
UCB: Davis House	Leasehold	Student		Berkeley	36	1969
UCB: Euclid Hall	Leasehold	Student		Berkeley	24	1948
UCB: Fenwick Weavers Village	Leasehold	Student		Berkeley	102	1981
UCB: Hillegass Parker House	Leasehold	Student		Berkeley	57	1977
UCB: Hoyt Hall	Leasehold	Student		Berkeley	60	1953
UCB: Kidd Hall	Leasehold	Student		Berkeley	17	1960
UCB: Kingman Hall	Leasehold	Student		Berkeley	50	1977
UCB: Lothlorien	Leasehold	Student		Berkeley	58	1975
UCB: Northside Apartments	Leasehold	Student		Berkeley	26	1960
UCB: Ridge House	Leasehold	Student		Berkeley	38	1946
UCB: Rochdale Apartments	Leasehold	Student		Berkeley	259	1971
UCB: Sherman Hall	Leasehold	Student		Berkeley	40	1938
UCB: Stebbins	Leasehold	Student		Berkeley	64	1936
UCB: The Convent	Leasehold	Student		Berkeley	25	1977
UCB: Wilde House	Leasehold	Student		Berkeley	38	1999
UCB: Wolf House	Leasehold	Student		Berkeley	29	1974
University of California, Davis						
UCD: Agrarian Effort Coop	Leasehold	Student		Davis	14	1972
UCD: Davis Student Coop	Leasehold	Student		Davis	14	1972
UCD: Pierce Coop	Leasehold	Student		Davis	15	1972
UCD: The Domes	Leasehold	Student		Davis	26	1972
University of California, Santa Barbara						
UCSB: Biko	Leasehold	Student		Isla Vista	18	1997
UCSB: Dolores	Leasehold	Student		Isla Vista	15	1994
UCSB: Manley	Leasehold	Student		Isla Vista	17	1984
UCSB: Merton	Leasehold	Student		Isla Vista	18	2011
UCSB: Newman	Leasehold	Student		Isla Vista	30	1981
UCSB: Persimmon	Leasehold	Student			14	2016

LIST OF CALIFORNIA HOUSING COOPERATIVES, *continued*

COOPERATIVE NAME	COOP TYPE	DESIGNATED POPULATION[1]	STRUCTURE[2] (if aplicable)	CITY	# UNITS[3]	YEAR FOUNDED (if known)
University of California, Los Angeles						
UCLA: Essene Hall	Leasehold	Student		Los Angeles	100	1936
UCLA: Hardman-Hansen Hall	Leasehold	Student		Los Angeles	200	1936
UCLA: Robinson Hall	Leasehold	Student		Los Angeles	104	1936
Univeristy of California, Santa Cruz						
UCSC: Turing Haus	Leasehold	Student		Santa Cruz	12	
Stanford University						
SU: 576 Alvarado	Leasehold	Student		Stanford	30	1896
SU: Columbae	Leasehold	Student		Stanford	50	1900
SU: EBF (Enchanted Broccoli Forest)	Leasehold	Student		Stanford	50	1965
SU: Hammarskjöld	Leasehold	Student		Stanford	33	1896
SU: Kairos	Leasehold	Student		Stanford	36	1911
SU: Synergy	Leasehold	Student		Stanford	50	1901
SU: Terra	Leasehold	Student		Stanford	54	1967

[1] Population: When no designation appears, the housing does not limit residency to a particular designated population

[2] Structure: While coops can be any type of construction, the only structures noted here are MHP (manufactured home park), shared home, and land trust

[3] Please note that "shared home" rooms are adjusted to approximate units. Also, student units are approximated by dividing "spaces" by 3.

TABLE OF CONTENTS: CALIFORNIA CHILDCARE COOPERATIVES

ABSTRACT: CHILDCARE COOPERATIVES

Parents across California struggle to find affordable, quality childcare. The situation is particularly dire for single parents and low-income households due to a shortage of available placements, high costs, and unequal access. Federal and state subsidies reach a small percentage of eligible families. As we argue in this chapter, cooperatives offer an underused opportunity to expand childcare options for working parents.

Cooperatives in the childcare sector can be organized by different stakeholders: in childcare centers this could be staff, parents, or employers while in home-based childcare, the providers of care would come together to form a cooperative. After reviewing each of these models, we recommend investing in two types of childcare cooperatives: 1) multi-stakeholder cooperatives in which parents and workers come together to operate a nonprofit licensed childcare center, and 2) cooperatives that bring together independent home-based providers in order to deliver greater support and economies of scale for these struggling businesses.

INTRODUCTION:
WHY INVEST IN CHILDCARE COOPERATIVES?

The pandemic made clear that parents need quality, affordable childcare to participate in the workforce. As schools and childcare centers closed or moved to remote learning, women left the workforce in droves (Boesch and Phadke, 2021). But even before the pandemic, Californians faced a childcare crisis brought on by shortages of licensed care, high costs, and unequal access. Programs are so poorly funded that only 13% of low-income parents eligible for federal and state assistance actually receive support (Schumacher, 2017 and Ullrich et al, 2019).

At the same time that parents struggle to find affordable care, childcare workers, disproportionately Black and brown women, are among the most poorly paid workers in the United States. Irregular hours and limited benefits compound the low wages. Women who enjoy working with children are forced to seek other types of work, contributing to an average annual turnover rate of 26%. The high turnover rate undermines the quality of care for children (Roberts, A., Gallagher, K.C., Sarver, S.L, and Daro, A.M., 2018)

Childcare cooperatives cannot solve all of these problems, but they can expand childcare options and help to reduce costs while offering better quality jobs for workers. As we discuss in this chapter, childcare cooperatives can take many forms: parent cooperatives, employer consortiums, worker cooperatives, and family childcare home provider cooperatives. Each has particular strengths, and all can be used to improve working conditions and quality outcomes. The most promising configuration for licensed childcare centers, we argue, is a multi-stakeholder cooperative, in which membership includes both parents and workers. This configuration balances the needs of two key constituencies committed to the well-being of the children. Additionally, we recommend home-based providers organize cooperatives as a means to stabilize their businesses and build a more supportive infrastructure.

Recommendations to Further the Growth of Childcare Cooperatives

1. Support the growth of childcare cooperatives to expand licensed childcare availability and affordability and to improve pay and working conditions for workers.

- **a.** Encourage the development of multi-stakeholder cooperatives, with workers and parents as members.
- **b.** Encourage the development of cooperatives among family childcare home providers.

2. Involve employers in expanding childcare choices.

- **a.** Involve employers across all sectors in increasing childcare opportunities and assuring accessible, affordable childcare for their employees with children.
- **b.** 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.

- **a.** Implement programs to educate policymakers, employers, parents, and childcare workers.
- **b.** Provide technical assistance to promote the growth of new cooperatives and provide governance support for effective operations.
- **c.** Engage childcare Resource and Referral Agencies in supporting childcare cooperatives.

SECTION 1:
WHAT DRIVES THE CHILDCARE CRISIS?

California Families Need Childcare

Childcare is a necessity for working families. A changing economy, where labor force participation is essential to maintaining a minimum threshold standard of living in a climate of rising costs and flat wages, fuels today's high rates of dual wage-earning households and single women heads of households (Leonce, 2020). The most pronounced increase in labor force participation over the last quarter century, as can be seen in the chart below, has been among mothers with small children.

Parents' Labor Force Participation Rates, 1994-2019

	Parents with own children under age 18			Parents with own children under age 6			Women with own children under age 3	Women with own children under age 1
YEAR	ALL	MEN	WOMEN	ALL	MEN	WOMEN		
1995	80.3	94.1	69.8	76.6	95.5	62.3	58.9	N/A
2000	82.1	94.7	72.3	78.4	96.1	64.6	60.4	N/A
2005	80.7	94.1	70.5	77.0	95.4	62.8	58.4	N/A
2010	80.9	93.7	70.8	77.5	94.7	63.9	60.7	56.5
2015	80.0	92.7	69.9	77.4	93.9	64.2	61.4	58.1
2019	81.8	93.4	72.3	79.4	95.0	66.4	63.5	59.9

Source: Parents' labor force participation rates, 1994–2019 Source: UFMUP1378865, FMUP1378869, and FMUP1378872, available at https://data.bls.gov/cgi-bin/surveymost?fm (last accessed October 2020).

Insufficient Childcare Spaces for Families

Parents use two types of licensed out-of-home childcare: center-based care, which provides care in a facility, and family childcare, which is provided in a home setting, usually for 12 or fewer children. Despite the need for childcare, California, like other states in the nation, has a severe shortage of licensed care. In fact, licensed childcare spaces, whether at a childcare center or in family childcare home, are available to serve only 24.5% of infants and toddlers whose parents are seeking out-of-home care (KidsData, 2019). The pandemic has aggravated this situation even further, with many providers forced to close their doors permanently after a year of insufficient income (Gupta, A.H., 2021).

As the chart below shows, all income groups experience difficulty finding childcare, but the challenges are most pronounced for mothers of color. Parents who are unable to secure licensed childcare are forced to minimize or forgo employment, use unlicensed care, leave children in the care of older siblings, or patch together arrangements with the other family members and/or friends. These arrangements are not always safe for children, and offer less reliable childcare for working parents.

Certain Groups Have an Especially Hard Time Finding Childcare

Reported difficulty finding childcare in 2016, by household income, mother's race/ethnicity, and child's age

	NO DIFFICULTY	DIFFICULTY	DID NOT FIND THE PROGRAM I WANTED
OVERALL	49%	43%	7%
ANNUAL HOUSEHOLD INCOME			
$30,000 or less	52%	37%	11%
$30,000–$60,000	43%	46%	10%
$60,000–$90,000	51%	42%	8%
$100,000 or more	51%	47%	3%
MOTHER'S RACE/ETHNICITY			
White	53%	42%	6%
Black or African American	47%	45%	8%
Hispanic	43%	44%	13%
Asian	40%	53%	7%
American Indian or Alaska Native	49%	44%	12%
Native Hawaiian or other Pacific Islander	39%	53%	7%
CHILD'S AGE			
Infant or toddler (0–2 years old)	44%	48%	8%
Preschooler (3–5 years old)	55%	38%	7%

Note: "Difficulty" includes families who reported having "a little difficulty," or "a lot of difficulty" finding childcare. Percentages may not add up to 100 due to rounding.

Source: Author's analysis of National Center for Education Statistics, "2016 National Household Education Survey. Early Childhood Program Participation Survey" (Washington U.S. Department of Education Institute of Education Sciences, 2018).

The COVID-19 pandemic has demonstrated that we will not solve the childcare problem by having women work from home. Over the last year, mothers with young children, dealing with childcare and school closures, reduced their work hours at a rate four to five times greater than that of fathers, doubling the gap of work hours between women and men (Kashen et al,.). Many sources relate these trends to the care responsibilities of mothers (McKinsey & Company, 2021, Taub, 2020). A report by the Center for Economic and Policy Research (CEPR) explains:

> *Prior to the pandemic, women disproportionately spent more time on household labor even when they were primary earners in their family. Now they face additional workloads, caring for and assisting with children's education from home often while balancing remote work or juggling essential work on the frontlines. As a result of care responsibilities, women are more likely to be laid off or leave work (CEPR, 2020).*

Many Families Cannot Afford Childcare and Subsidies Are Inadequate

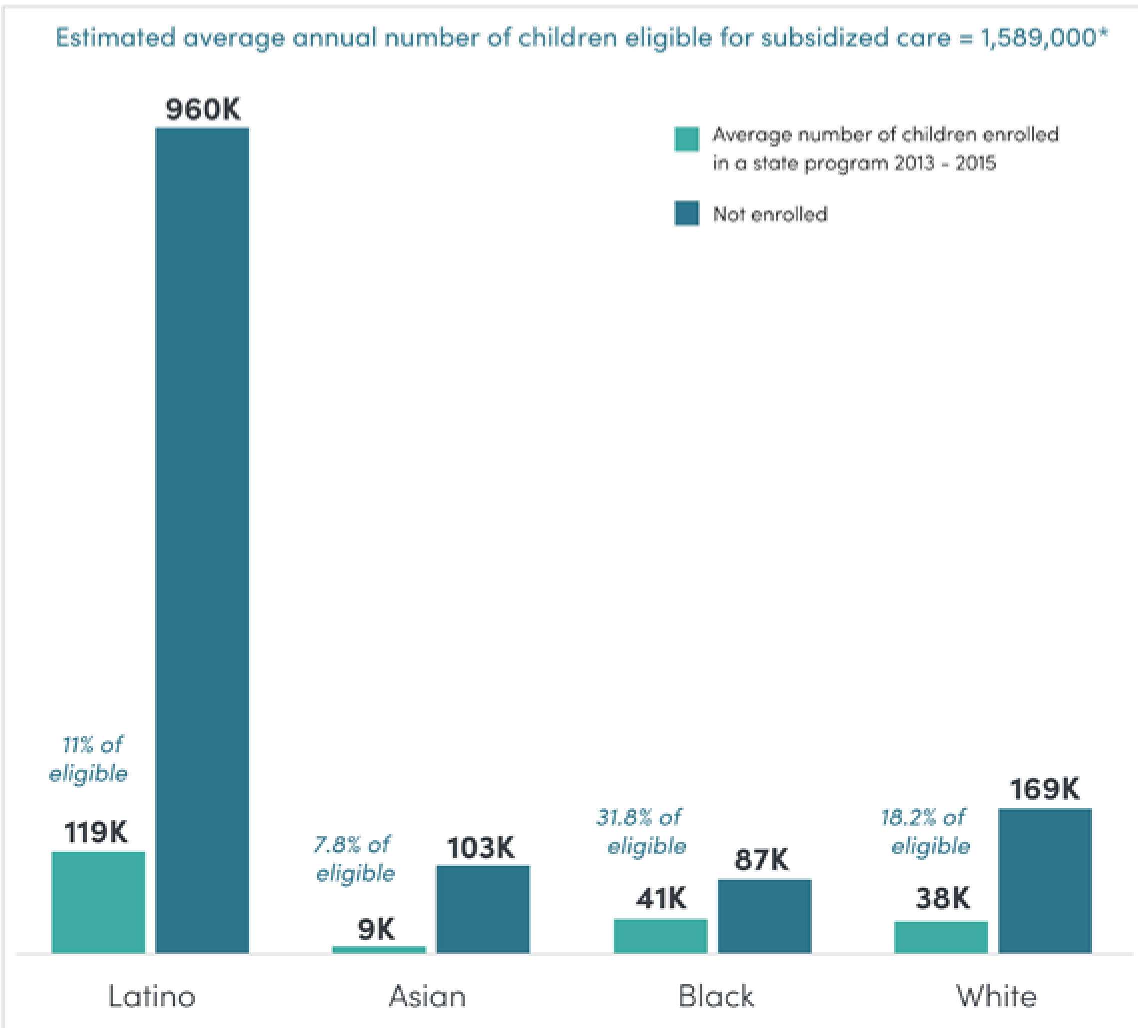
For most families, childcare expenses are among the household's highest expenses, following (only slightly) after the cost of housing. California is among states with the highest prices for childcare and is the least affordable state for center-based infant care (Child Care Aware, 2020). As the chart below shows, licensed childcare centers are more expensive than home-based care, with both consuming a large percentage of the average family's income. In the case of single parents and parents living at the poverty line, childcare expenses can exceed family income.

Center	Percent of Income Spent on Childcare	Home
17.5%	Infant Childcare – Married Couple Family	11.3%
29.5%	Two Children – Married Couple Family	21.9%
56.3%	Infant Childcare – Single Parent	36.3%
94.7%	Two Children – Single Parent	70.5%
100.2%	Married Family with Two Children at the Poverty Line	82.0%

Source: Parents' labor force participation rates, 1994–2019 Source: UFMUP1378865, FMUP1378869, and FMUP1378872, available at https://data.bls.gov/cgi-bin/surveymost?fm (last accessed October 2020).

Public subsidies do not come close to meeting the needs of families. For example, the federal Child Care and Development Block Grant (CCDBG) program, which allocates funds to state agencies that administer them, serves fewer than 5% of eligible California children (Ullrich, 2019). The California Department of Education's preschool program offers full-day care for low-income children but serves only a fraction of eligible households, and the same is true for subsidies allocated through the California Department of Social Services. As the chart below shows, of the nearly 1.6 million California children eligible for childcare subsidies, the average annual number of children enrolled is a little more than 200,000.

Enrollment in Subsidized Childcare and Full-Day State Preschool Varies by Race and Ethnicity



Note: Includes children enrolled in the full-day California State Preschool Program (CSPP). Excludes children enrolled in the part-day CSPP. Data are not available for California Community Colleges CalWORKs Stage 2.

Race and ethnicity data for CalWORKS Stage 1 are estimated.

*Estimate is an annual average of data for 2013 to 2015.

Source: California Department of Education, Department of Social Services, and Budget Center analysis of U.S. Census Bureau, Current Population Survey data.

New initiatives in California, including transitional kindergarten (TK) and very recent increases to state childcare subsidies for low-income families, along with President Biden's plan to increase CCDBG funding, promise to improve the situation for low-income families. Still, the eligibility/subsidy gap is so large that the problem is far from solved.

Poor Jobs Lead to High Turnover that Undermines Quality

Across all occupations, childcare workers are among the lowest paid in the nation (Gould and Blair. 2020). In California, 58% of childcare workers earn so little that they qualify for public assistance. A study by the Center for the Study of Early Child Care Employment at the University of California-Berkeley found a "racial wage gap" as well. After accounting for education, African American early educators, who comprise 40% of California's childcare workforce, earn about 78 cents less per hour than their white counterparts *(Austin et al., 2019).*

Low pay and poor benefits make for a fragile workforce, fueling high turnover that reduces the quality of care. The 26% annual turnover rate among childcare teachers (Roberts et al,. 2018) makes it difficult for children to build trust and form the attachments that are crucial to high-quality care. It also makes it difficult to recruit workers and expand childcare options for parents.

[1] While most licensing is through the Department of Social Services, some programs are regulated by the CA Department of Education.

Why is Childcare so Expensive?

Childcare is not a high-profit industry; rather it is an expensive service to provide because it is labor-intensive and highly regulated to keep children safe (Deahl, 2017; Thompson, 2019; Coontz, 2003). We know from decades of research that a high caregiver-to-child ratio is essential, and that children do best when caregivers are skilled, knowledgeable, and experienced. Children flourish when they can form attachments and build trust, which requires small groups and consistent caregivers (McMullen, 2018).

State regulations are designed to ensure childcare services meet these quality standards. California regulates almost all out-of-home childcare services, including family childcare homes and childcare centers. Both home-based and center care must follow safety requirements as well as maximum caregiver-to-child ratios (1:3 for infant care; 1:12 for preschool children). Childcare centers must comply with education requirements for caregivers, per-child indoor and outdoor square-footage requirements, and a host of other safety requirements *(Title 22, Community Care Licensing, CA Department of Social Services).*[1]

These necessary regulations increase the cost of operating a childcare business, yet parents are limited in what they can pay. Eking out a profit is difficult. The largest expense that can be minimized is worker wages, which partly explains why the industry is known for poor wages and benefits.

SECTION 2:
WHAT ARE THE DIFFERENT TYPES OF CHILDCARE COOPERATIVES?

Childcare needs cannot be met with a one-size-fits-all approach. Parents desire care that is affordable and convenient, accommodates their work schedules, meets their expectation of quality, and meshes with their values. Yet, when faced with few options and the cost of care, parents are often immediately confronted with uncomfortable compromises. Parents may place their child in a caregiving situation they can afford, rather one that they believe provides the highest quality of care.

Cooperative models expand the options for affordable, quality childcare. Like other licensed models of care, cooperatives can accept vouchers and other subsidies for low-income families.

All cooperatives are democratically controlled by their members, but who the members are changes the priorities. For example, the members of parent and babysitting cooperatives are parents, so policies and decisions center around their needs, including fees and program scheduling. When members are workers or home childcare providers, they may be more likely to prioritize pay, benefits, and worker schedules.

Below we review the different types of childcare cooperatives and share some examples of successful enterprises. In all cases, childcare coops are most effective when members engage in regular training and education about governance, communication, and sound business practices. Professional development for staff in the cooperative is also important. Professional development opportunities convey respect for the importance of early education, increase job competency and satisfaction, and help childcare staff feel more engaged and appreciative of their work (Blackstone, 2019).

Parent Cooperatives

The parent cooperative is the most common form of childcare cooperative. Sometimes referred to as "Preschool Cooperatives" or "Parent Participation Nursery Schools," the 238 parent cooperatives in California provide licensed center-based care and enrichment programs for children. Typically, such cooperatives are organized as tax-exempt nonprofit 501(c)3 corporations, rather than cooperative corporations.[2]

[2] Because they provide early education services that enable individuals to be gainfully employed and these services are open to all families, parent cooperatives are eligible for tax-exempt status (IRC 501(k), and case law: San Francisco Infant School, Inc: 1978-2 C.B).

Parents are attracted to childcare and preschool cooperatives because they offer high-quality, affordable early education for children. A parent-elected board of directors governs the cooperative, establishing policies and hiring and overseeing the program director. The program director, an expert in early childhood education, runs the day-to-day operation of the center, including hiring and supervising other staff.

Parents often contribute volunteer hours to their childcare cooperatives. This involvement reduces overhead costs and allows parent input and intimate knowledge regarding their child's out-of-home experiences; it also creates opportunities to interact with other parents and the teachers.[3] The higher level of parent involvement is recognized in California's licensing regulations, which provide a staffing adjustment that recognizes parents in the required adult-to-child ratios (Child Care Center, General Licensing Requirements: 101216.5, Staffing-Parent Cooperative Centers).

For childcare workers, parent cooperatives appear to offer better-than-average working conditions. A 1998 survey indicates that California parent cooperatives, at that time, offered above-average pay and benefits.[4] Based on the 146 responding cooperatives, the hourly wages reported for center directors and teachers at all levels were well above the national average. Worker retention was also high: 72% of program directors and director-teachers had worked at their coop for at least five years, and of this group, 75% had been with their coop for ten or more years. There were similar trends for teachers at all levels, with fewer than 3% of teachers having been with their coop for less than a year (Coontz, 2003).

The parent cooperative creates a community, offers opportunities to participate and share experiences with one's children, and provides a consistency of staffing that is attractive to many California families in need of childcare.

[3]California's Family-School Partnership Act requires that employers with 25 or more employees allow parents, grandparents, and guardians time off from work to participate in their children's school or childcare activities (Labor Code Section 230.8; 1995, with amendments in 1997).

[4]Anecdotal reports from interviews suggests that these trends continue.

What Is the History of Parent Childcare Cooperatives?

Cooperative childcare has its roots in the early childhood education movement, and the impassioned work of Friedrich Froebel, Margaret and Rachel McMillan, and Maria Montessori at the turn of the twentieth century.

In California, the development of parent cooperatives began in 1927 when Katherine Whiteside Taylor founded the Children's Community in Berkeley. Dr. Taylor inspired the parent participation nursery school movement through her belief that early education programs were most effective when educators and parents worked together. Cooperative preschools provided an opportunity for teachers, mothers, and children to form relationships in a setting of reciprocal learning. They also provided mothers with child-free time to pursue volunteer activities.

As the movement took hold, support organizations formed to facilitate communication among parent cooperatives. City, state, and regional councils formed, including, in 1948, the California Council of Parent Participation Nursery Schools. By 1952, New Jersey and Michigan had state councils, and the first multi-region council included Virginia, Maryland, and the District of Columbia. The cooperative approach also spread outside the United States, to Canada, New Zealand, and Europe. In 1960, Dr. Taylor founded the American Council of Cooperative Preschools, which later became the Parent Cooperative Preschools International (Hewes, 1998).

By the mid-1960s, parent cooperative programs were increasingly recognized and integrated into professional associations. The National Association of Nursery Education (today the National Association for the Education of Young Children) formed a cooperative committee, recognizing the value of parent

Employer-Assisted Childcare Cooperatives

A lack of reliable, affordable childcare options impacts California employers by making it more difficult to recruit and retain employees. A good deal of research shows that offering employer-assisted on-site or near-site childcare is effective in improving staff recruitment and retention, reducing absenteeism, and increasing job satisfaction and company loyalty (Anderson, 2019; Coontz, 2003; Moran, 2016).

Despite the research, California employers who offer on-site or near-site childcare are rare, and those that do are usually located at the headquarters of large corporations. Typically, these workplaces require that parents pay for care, but the cost is below market. The high cost of childcare makes many employers reluctant to directly operate childcare centers, which can complicate issues around where to locate the center.

The high cost of childcare makes it unlikely that employers can fully pay for the costs for care; however, employers can play a significant role in reducing the cost of care, including:

- Developing employment agreements with the cooperative that include childcare workers on their healthcare or other benefit plans
- Providing building space, utilities, use of copying and other equipment
- Using employer-based food service to provide meals for children in childcare

While using a cooperative for employer-assisted childcare is rare, the model has a number of strengths: it creates new childcare spaces, it includes strong support from member employees, and the needs of parent-employees are recognized through parent leadership. The multi-stakeholder model adds worker representation, making it even stronger.

involvement in supporting the long-term success of children (Rimm-Kaufman and Pianata, 1999).

Parent cooperatives also influenced other programs. The highly regarded parent participation component of Head Start, a federally funded early childhood education program for low-income families, is a legacy of the cooperative preschool movement and is often credited with contributing to the success of the program (Hymes, 1991, p. 386-7).

Studies of Head Start programs show that parent involvement raises the aspirations parents have for their children, which encourages children to see themselves as capable of meeting those expectations. This cycle and strong parent-child bonds contribute to positive outcomes for children. One researcher illustrated this with the response a Head Start parent gave when he asked what difference Head Start made for her family. The mother responded:

"Well it's simple .... When my daughter used to give me pictures she'd drawn I'd think to myself, that's the ugliest picture I'd ever seen, and I'd wad it up and toss it in the wastebasket. After she was in Head Start, I'd take the picture, ask her to tell me about it, and post it proudly on the bulletin board." (Zigler and Muenchow, 1992, p. 14).

Today, California's more than 200 parent cooperatives have adapted to the changing times in which most parents are full-time workers. Although they resemble their 1950s counterparts in parent governance and community building, most programs have reduced expectations for parent involvement and offer full-day childcare for members who need it. Still, parent participation remains in the fabric of parent cooperatives; parents are the members of the cooperative and work with the childcare director and teachers to create quality, meaningful care for the children.

This model can be expanded to include consortiums of small businesses, nonprofit organizations, or public agencies that cooperatively develop near-site childcare to gain the recruitment and retention advantages that larger employers enjoy. In this model, the board normally consists of representatives from each employer, which can be parents. We propose expanding the board to also include workers.

Two cooperative models can promote the benefits of near-site or on-site childcare for employers and address the reluctance of employer involvement: the employee model and the consortium model. In both models, democratic member control of the program helps ensure user satisfaction and overall program success.

Employee Model: In the employee model, parents at the worksite are the members of the cooperative and elect the board of directors. The center operates almost identically to the parent childcare cooperative described above. The employer may assist the cooperative by helping with start-up expenses, contributing financially, or by providing any of the in-kind assistance presented above.

GeoKids in Menlo Park, CA, is an employee cooperative established in 1987 by federal employees of the Geological Survey. Employees lobbied for an on-site childcare center, and management eventually embraced the idea. The cooperative board of directors includes parent-employee members and one management appointee. The Geological Survey provides the on-site space at no cost, as well as use of a telephone system and utilities.

Consortium Model: In a childcare consortium, nearby businesses (private or corporate businesses, nonprofit organizations, or public agencies) join together to provide near-worksite childcare for their employees. The businesses, not the parents, are the members of the cooperative. This enables smaller businesses, or businesses with fewer parent employees, to offer childcare benefits. In this model, the board includes representatives from the member businesses (who may also be parents, and can also include representation from workers). Member businesses share the costs and benefits associated with the program and typically charge fees to employee-parents using the center.

Babysitting/Parent Exchange Coops

Babysitting cooperatives allow parents to equitably exchange babysitting services so they can enjoy a night or day excursion or cover childcare needs during work travel or overtime. These informal, unincorporated cooperatives have been around for decades and typically involve relatively short-term arrangements among an established group of member-parents. The cooperatives have established criteria and a process for bringing in members as well as established cooperative practices such as democratic decision making and systems to promote equality. When parents take care of one or more children from a member family, they earn points or scrip that can be exchanged when they need babysitting services.

Technology platforms such as the Kome App have been developed to connect parents so they can mutually arrange childcare. Komae declares itself a "cooperative childcare app," but it is not a cooperative. This app and others like it may be helpful in identifying other parents who want to share babysitting responsibilities, but it does not function as a community with democratic decision making.

California legislation enacted in 2018 opened the door to expanding the babysitting cooperative model so that it can be used by employed parents. Under very specific situations, care exchanges among parents can be exempt from licensing (California Health & Safety Code § 1596.792(e); DSS Manual § 102358).

To distinguish this cooperative arrangement from the parent cooperative model previously described (which is a licensed childcare center), we refer to this arrangement as a Parent Exchange Coop. To take advantage of the exemption from licensing, Parent Exchange Coops must adhere to the following statutory requirements:

- No payment of money or receipt of in-kind income is provided in exchange for care
- All care is provided by a rotation of parents or close relatives
- No more than 12 children receive care at one time

While these cooperative childcare arrangements can be informal, it is useful for families to create an agreement about the details of the arrangement, scheduling, and each parent's responsibilities. Besides offering clarity among members, the written agreement can also be helpful in the event of a dispute or a question about whether the arrangement needs to be licensed.

Perfect Tender Co-op has served law students at University of California-Davis for well over a decade. Currently the program is for infants under one year. A nursery is provided at the law school location, King Hall, and students take turns caring for the babies at no charge to parents.

Worker Cooperatives

A worker cooperative is owned by the people who provide the childcare: the director, teachers, and often classroom aides and administrative staff. By combining their energy, capital, and skills, worker members gain steady employment and income and participate in decisions that affect their workplace; they also share any business profits made from their investment and labor.

As with other worker cooperatives, childcare cooperatives that use this model empower workers to make decisions regarding the growth and success of the business. The model seeks to address the generally poor working conditions in the field and improve wages in order to boost staff retention, which benefits the children by enhancing "continuity of care." Worker cooperatives, however, are rare in the childcare field because they face several inherent challenges.

First, childcare is a low-margin business, with multiple built-in expenses and a client population (parents) with limited resources to pay. As discussed earlier, necessary regulations that support quality of care for children increase costs.

Parent cooperatives also shoulder many of these expenses. However, as nonprofit corporations, they benefit from their tax-exempt status. Worker cooperatives, which are formed to benefit workers, are not tax exempt and, therefore, have the additional expense of state and federal taxes. Moreover, they are unable to receive tax-deductible donations or foundation grants that require nonprofit status.

Nonetheless, a few worker cooperatives have succeeded in the childcare space. One example is Childspace, a Philadelphia worker cooperative that operates from two locations: one in Mount Airy which started in 1988, and the second in Germantown, which started in 1991. The Philadelphia centers provide living-wage jobs for 57 members and high-quality programs for children. Both Childspace locations demonstrate their commitment to quality children's services by obtaining certification from the National Association for the Education of Young Children (NAEYC). An effort to replicate the Childspace model in Richmond, CA, and other locations, however, were not successful, demonstrating the multiple challenges involved.

The ICA Group, a national nonprofit dedicated to research and development models for worker cooperatives, has sought to expand childcare cooperatives by encouraging sole proprietor childcare centers to sell their businesses to their employees. The ICA Group assisted in the transfer of the Rose Garden Early Childhood Center in Buffalo, NY, from the founder to the employees. Two cooperative lending institutions loaned the employees 70% of the financing to buy the business, and the founding owner financed the remaining 30%. During the first year of the transition, the owner provided guidance and consultation to the cooperative. Today, Rose Garden is celebrating two years as a successful worker cooperative.

One strategy that could work well for childcare worker cooperatives is contracting with a consortium of businesses or a nonprofit to provide childcare for employees. This would provide a steady stream of clients, without the added expense of marketing services. In such cases, the contracting entity may wish to be represented on the board, as is the case with the employer models discussed previously.

SECTION 3:
WHAT INNOVATIVE COOPERATIVE MODELS COULD GROW CHILDCARE OPTIONS?

There are two types of childcare cooperatives that are relatively rare but offer opportunities to expand childcare options while also improving jobs. These include multi-stakeholder cooperative childcare centers and cooperatives formed by independent family childcare home providers.

Multi-Stakeholder Cooperative Childcare Centers

As described previously, childcare centers may be organized as parent cooperatives or worker cooperatives. Worker cooperatives, which have formed to try to improve the quality of jobs, have faced a difficult economic environment. Multi-stakeholder childcare cooperatives that include both parent and worker members draw on the strengths of the parent model while ensuring that workers have a voice to promote better compensation and working conditions.

The multi-stakeholder model has a distinct advantage over a worker cooperative because it can qualify for nonprofit tax-exempt status as long as workers make up fewer than 50% of the board and forgo profit sharing. Because of the narrow industry margins, the tax savings can free funds for higher wages and benefits. Additionally, the tax status enables tax deductible donations and eligibility for grants and similar support.

There are not many examples of multi-stakeholder childcare cooperatives, but a very successful one is the Children's Center of the Stanford Community (CCSC), which was founded by graduate students in 1969. Today it offers full-time care for infants from age eight weeks through preschoolers aged five and under. The cooperative operates with a board of nine parents, five staff members, and a university representative. Parents organize an annual fundraiser and volunteer for several workdays to spruce up the facility and grounds. Members value the open dialogue and co-governance of the center.

Family Childcare Home Cooperatives

Family childcare homes, independent childcare programs operated out of a provider's home, are an important source of care for families. These programs provide options for families that are not always available through licensed childcare centers; for example, they often provide care for multi-aged children or have more flexible hours, including nights and weekends. This type of care also promotes more intimate relationships when compared to center care.

Family childcare homes create jobs by allowing providers to care for children in their homes, but the low wages, long hours, fluctuating client base, isolation from other adults, and limited opportunities for benefits such as sick leave or vacation lead to provider burnout and high turnover.

In recent years, the ICA Group began providing assistance in organizing family childcare home cooperatives to address these issues. In this model, each licensed childcare home remains a separate business, but members join together for mutual support and to strengthen their businesses through economies of scale. Decisions concerning the cooperative are made democratically by the provider-members.

The cooperative can provide support to members by creating a network of back-up care, where members provide care for the clients of a member who is ill or goes on vacation. Members can also gain efficiencies by sharing meal plans, templates for paperwork, and by leveraging joint purchasing power through bulk purchase of supplies, equipment, food items, and insurance. Individual members, or the cooperative as a whole, may specialize in particular types of care (evenings, weekends, age specific) or offer enhanced programs.

Organizing as a cooperative can also open the door to contracting with employers for childcare. This could improve provider income, as employers pay a monthly amount for the care whether or not the space is used.[5] The promise of steady income might also attract more people into the home childcare field. At their headquarters in Ventura, for example, Patagonia Outdoor Clothing and Gear contracts with family childcare homes to care for children who are not enrolled in their on-site program. Patagonia directs these relationships, but in a provider cooperative the members could proactively develop such employer relationships and steer the terms of such contracts.

Supported by the ICA Group, the Family Child Care Coalition (FC3) of Greater Philadelphia has 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 for when a home provider is ill or on vacation. The cooperative operates as a member-governed 501(c)3 nonprofit.

Ironically, some of the same reasons that family childcare providers can benefit from cooperative formation are also what challenges their formation. Low compensation prevents providers from being able to hire someone to coordinate cooperative affairs, and their long work hours leave them with little bandwidth to take on the coordination and administration. For these reasons, our recommendations include providing such support through an existing state-funded service: California Resource and Referral Agencies (see p. 17).

[5]For childcare providers who rely on public subsidies, one of the issues is that the funding is tied to each child's attendance. If the child doesn't show up, the provider loses that income.

SECTION 4:
WHAT IS THE ECOSYSTEM SUPPORTING CHILDCARE COOPERATIVES?

Among the different types of childcare cooperatives, parent cooperatives have the most fully developed infrastructure, with regional, state, and national associations that date back a half-century or more. Most of these associations are staffed entirely by volunteers and have minimal budgets. Nonetheless, parent cooperative associations function exceptionally well.

Parent Cooperative Preschools International (PCPI) is a nonprofit international council representing more than 50,000 families and teachers. PCPI is dedicated to supporting and encouraging parent participation and continuing education for parents, teachers, and directors. Members are primarily in the United States, British Columbia, and Ontario. Today, PCPI is affiliated with the National Cooperative Business Association (NCBA), which provides administrative and material support to PCPI's volunteer officers and members.

California Council of Parent Participation Nursery Schools (CCPPNS) is a state-wide association supporting preschool cooperatives "founded on the principle that the best education will result from an active partnership among parents, teachers, and children" (CCPPNS website, www.ccppns.org). The council has a Southern Area, which includes 6 councils representing 61 preschools, and a Northern Area, which includes seven councils and 70 member preschools. Approximately 27 similarly organized state associations can be found across the United States. While many of the member schools run part-day programs, a growing number provide full-time childcare.

The California Center for Cooperative Development provides technical assistance to existing cooperatives and supports the development of new cooperatives. The Sustainable Economies Law Center offers legal resources and information about childcare cooperatives. Project Equity supports California business owners in assessing whether a worker cooperative might be a fit and identifying the best path forward. The ICA Group provides technical assistance in the conversion of sole proprietor or corporate childcare centers to worker ownership.

SECTION 5:
RECOMMENDATIONS: HOW CAN CHILDCARE COOPERATIVES THRIVE AND HELP SOLVE THE CHILDCARE CRISIS?

California needs a multifaceted approach to solving the childcare crisis. First and foremost, childcare subsidies for low-income families must be fully funded, along with federal and state initiatives to expand services. Among these initiatives should be support for childcare cooperatives as a strategy to diversify and expand childcare options for parents. Cooperatives are particularly well suited as a strategy to grow options for families, while also addressing the cost of care, poor working conditions, and racial inequities. Public and private funders should recognize the value and legitimacy of cooperative childcare arrangements and provide increased support.

Parent cooperatives are a well-established, proven model that can be expanded to include worker members to create multi-stakeholder cooperative childcare centers. In addition to parent and multi-stakeholder cooperatives, we recommend public and private support for family childcare home cooperatives that bring together independent home-based providers. Finally, we recommend incentivizing employers to expand childcare options for their employees by supporting on-site or near-site cooperative childcare centers or family childcare home cooperatives.

To further the development of childcare cooperatives, we recommend that California expand the role of Resource and Referral Agencies (R & R agencies). These agencies are funded by the California Department of Education and are located in each county. They collect information about childcare, help parents identify licensed care, and provide training for childcare providers. These established networks could effectively expand childcare and improve provider working conditions by becoming better educated about cooperative models in order to provide information, coordination, and assistance. This role would be particularly effective in supporting family childcare home provider cooperatives.

Our specific recommendations are detailed below.

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.** Multi-stakeholder childcare cooperatives draw on the strengths of the parent model while ensuring that workers have a voice over the quality of their jobs. Because these cooperatives can be organized as tax-exempt nonprofits (as long as workers constitute less than 50% of board members), the model has a greater chance of being successful in an industry with very low margins.

- **Encourage the development of cooperatives among family childcare home providers.** Family childcare homes are an important source of childcare for families, but they face multiple obstacles; a cooperative can help these isolated providers address many of the challenges they face by providing a mechanism for back-up care and economies of scale for purchasing, marketing, accounting, and so on. Additionally, a cooperative of providers could potentially contract with local businesses to provide care for employees.

2. Involve employers in expanding childcare choices.

- **Employers should be involved in increasing childcare opportunities and assuring accessible, affordable childcare for their employees with children.** Participation from all sectors is needed to effectively address the childcare crisis, and employers benefit when their employees have secure childcare.

- **Public and private programs can provide funding to encourage employers to use nonprofit cooperative models of care.** Funding sources recognize the strengths of multi-stakeholder cooperatives (parents and workers), or family home childcare, by providing matching funds for start-up support for employers who sponsor near or on-site 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.** While cooperatives are an enduring part of the childcare field in California, they are largely overlooked. Programs to raise awareness about the important role this model can play in expanding care while addressing crucial issues of worker pay and equity will fuel awareness.

- **Provide technical assistance to promote the growth of new cooperatives and provide governance support for effective operations.** Professional cooperative development support in organizing and establishing cooperatives is essential to their growth. This can include starting new cooperatives, as well as converting programs at risk of closure to ownership by workers and parents. Support in effective decision-making practices is essential to growing and strengthening all cooperative models.

- **Engage childcare R&R agencies in supporting childcare cooperatives.** As existing state funded programs, R&R agencies can play an important role in expanding cooperatives by becoming better educated about cooperative models and incorporating this information into the communication and resource role they provide. They can also provide crucial coordination and administrative assistance to family childcare home cooperatives by:

  - Providing resources and organizing information sessions about cooperatives for home-based providers
  - Offering ongoing coordination services for online or in-person meetings
  - Providing outreach to employers
  - Providing administrative services including template agreements, bulk purchasing, and accounting
  - Facilitating and funding ongoing cooperative governance education by experienced professionals

WHAT IF ... $12 Million for Childcare Coops?

We asked ourselves a provocative question: how could California utilize a significant investment in cooperatives, $100 million for example, to address the crises in childcare, housing and quality jobs? Our "WHAT IF" scenario allocates $12 million to childcare coops.

1. $9 million towards technical assistance and establishing licensed coop childcare centers; design funding to encourage use of community and workplace buildings.

2. $1.5 million for coops to establish programs to take advantage of government grants and to provide financial support for low-income families without government subsidies.

3. $1.5 million to design and launch support for homecare childcare coops through already existing Resource & Referral Agencies.

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Childcare Cooperatives & Childcare Licensing Laws

For the most part, all cooperative childcare centers must be licensed and adhere to the same requirements of all childcare centers per California Health and Safety Code Sections 1596.80 - 1596.879. Below are some exemptions that can be taken advantage of by childcare cooperatives. More detailed information can be found in the Community Care Licensing Division of the Department of Social Services' "Updated Covid-19 Guidance for Cohorts, Group Size, and Ratios In Licensed & License-Exempt Child Care Settings" letter.

Staffing Requirements for Parent Cooperative Centers:
Cooperatives have the option of operating under general regulations or a code for parent cooperatives. This code recognizes some of the circumstances in parent cooperative childcare centers by allowing parents participating in the classroom to be included in the ratios, and by allowing centers with fewer than 25 children to combine the position of director and teacher. In exchange, the child-to-adult ratio for preschoolers is reduced from the general maximum of 1:12 to 1:5. When the number of children in the cooperative reaches 25, parent cooperative centers must employ a full-time teacher in addition to the director and participating parents. (Found in 22 CCR § 101216.5 - Staffing - Parent-Cooperative Centers. For authority reference, see Health and Safety Code Sections 1596.81, 1596.72, 1596.73, and 1597.05.)

Special Exemptions for Non-Center Parent Cooperatives:
Under very specific circumstances, California allows parent groups to care for their children through a cooperative arrangement, without getting a family childcare home license. California Health and Safety Code Section 1596.792 (e) and the Health qnd Human Services Agency's Department of Social Services' Manual of Policies and Procedures § 102358, explains the circumstances in which the exemption does not apply:

> Any cooperative arrangement between parents for the care of their children when no payment is involved and the arrangement meets all of the following conditions:
>
> 1) Parents must combine their efforts so that each parent, or set of parents, rotates as the responsible caregiver with respect to all the children in the cooperative;
>
> 2) There can be no payment of money or receipt of in-kind income in exchange for care. This does not prohibit in-kind contributions of snacks, games, toys, blankets for napping, pillows, and other materials parents deem appropriate for their children. This does not prohibit payment for outside activities, like park admission fees, but the amount of that payment may not exceed the actual cost of the activity;
>
> 3) Any person caring for the children must be a parent, legal guardian, stepparent, grandparent, aunt, uncle, or adult sibling of at least one of the children in the cooperative;
>
> 4) No more than 12 children are receiving care in the same place at the same time.

LIST OF CALIFORNIA CHILDCARE COOPERATIVES

COOPERATIVE NAME	ADDRESS	CITY	STATE	ZIP CODE
A Parent Child Center (Little Wonders)	225 Tilton Ave.	San Mateo	CA	94401
All Children Great & Small Preschool	4612 Welch Place	Los Angeles	CA	90027
Almaden Parents Preschool	5805 Cahalan Avenue	San Jose	CA	95123
Altadena Nursery School, Inc	789 N.Altadena Drive	Pasadena	CA	91107
Atascadero Cooperative Pre-School	8935 Amapoa Ave.	Atascadero	CA	93422
Bakersfield Parent Nursery	2080 Stine Road	Bakersfield	CA	93309
Bakersfield Play Center	1620 Kentucky St.	Bakersfield	CA	93306
Bay School & Tularcitos Parent Co-Operative	8460 Carmel Valley Road	Carmel	CA	93923
Bayshore Co-op Preschool	5431 E Ocean Blvd	Long Beach	CA	90803
Beverly Glen Playgroup	10409 Scenario Lane	Los Angeles	CA	90077
Bonny Doon Community Preschool	1492 Pine Flat Road	Santa Cruz	CA	95060
Bright Beginnings Prechool	450 Blue Ravine Road	Folsom	CA	95630
Broadmoor Cooperative Preschool	951 Dowling Blvd.	San Leandro	CA	94577
Building Blocks	23800 Summit Road	Los Gatos	CA	95033
Bunker Hill Parent Participation Nursery School	802 N Sierra Drive	San Mateo	CA	94402
California Heights Parent Participation Nursery	1500 East Carson St.	Long Beach	CA	90807
Campbell Parent Participation Nursery School	528 Harrison Ave.	Campbell	CA	95008
Canyon Cooperative Nursey School	1820 N Las Palmas Ave.	Los Angeles	CA	90028
Carlmont Parents Nursery School	PO Box 814	Belmont	CA	94002
Castro Valley Parent Nursery School	3657 Christensen Lane	Castro Valley	CA	94546
Cazadero Performing Arts Camp	5385 Cazadero Hwy	Berkeley	CA	94707
Centennial Christian Preschool	5401 Freeport Blvd.	Sacramento	CA	95822
Centro Las Olas	1401 Broadway	San Francisco	CA	94110
Children's Center of the Stanford Community	140 Comstock Circle	Stanford	CA	94305
Children's Community Center	1140 Walnut St.	Berkeley	CA	94707
Children's Cottage Cooperative	2900 Larkspur Landing Circle	Larkspur	CA	94939
Christ Methodist Nursery School	1717 Yulupa Ave.	Santa Rosa	CA	95405
Christ The King Preschool	5811 Walnut Ave.	Orangevale	CA	95662
Claire Lilienthal Nursery School	3630 Divisadero St.	San Francisco	CA	94123
Claremont United Methodist Nursery School	215 W Foothill Blvd.	Claremont	CA	91711
Clayton Valley Parent Preschool	1645 West St.	Concord	CA	94521
Cotati Rohnert Park Cooperative Nursery School	150 West Sierra Ave.	Cotati	CA	94931
Cottage Nursery School	169 West Arlington Drive	Pasadena	CA	91105
Cow Hollow Cooperative Preschool	65 Funston Ave.	San Francisco	CA	94129
Creative Play Center	2323 Pleasant Hill Road	Pleasant Hill	CA	94523

LIST OF CALIFORNIA CHILDCARE COOPERATIVES, *continued*

COOPERATIVE NAME	ADDRESS	CITY	STATE	ZIP CODE
Crescenta-Canada Cooperative Nursery School	1700 Foothill Blvd.	La Cañada	CA	91011
Crestwood Hills Nursery School	986 Hanley Ave.	Los Angeles	CA	90049
Cupertino Co-op Nursery School	563 W Fremont Ave.	Sunnyvale	CA	94087
Dandelion Nursery School	941 The Alameda	Berkeley	CA	94707
Davis Community Church Nursery School	412 C Street	Davis	CA	95616
Davis Parent Nursery School	426 W 8th street	Davis	CA	95616
Diamond Bar Community Nursery School	400 S Rancheria Road	Diamond Bar	CA	91765
DIG Childhood Center	3940 Grand View Blvd.	Los Angeles	CA	90066
Discovery Parent Child Preschool	1919 Gunston Way	San Jose	CA	95124
Dot Tot Preschool and Child Care	1630 12th St.	Sacramento	CA	95814
El Cerrito Preschool Cooperative	PO Box 463	El Cerrito	CA	94530
El Segundo Cooperative Nursery	300 East Pine St.	El Segundo	CA	90245
Encino Parent Cooperative Nursery School	16953 Ventura Blvd.	Encino	CA	91316
ETNA Elementary	220 Collier Way	Etna	CA	96027
Exeter Community Preschool	259 South E St.	Exeter	CA	93221
Explorer Preschool	2700 Booksin Ave.	San Jose	CA	95124
Fair Oaks Participation Preschool	4150 Temescal St.	Fair Oaks	CA	95628
Family Connections	P.O Box 358	San Carlos	CA	94070
Franklin Parent Nursery	1460 Eighth St.	Berkeley	CA	94710
Franklin Park Preschool	2095 Franklin Ave.	Santa Rosa	CA	95404
Fremont Parents' Nursery School	4200 Adler Ave.	Fremont	CA	94536
Fullerton Community Nursey School	2050 Youth Way, Building 2	Fullerton	CA	92835
Gan Israel Preschool	1055 Las Ovejas Ave.	San Rafael	CA	94903
Garden Grove First Pre-School	8461 Garden Grove Blvd.	Garden Grove	CA	92844
Geo Kids	345 Middlefield Road	Menlo Park	CA	94025
Glenridge Cooperative Nursery School	PO Box 31202	San Francisco	CA	94131
Grace Cooperative Preschool	2100 Tice Valley Blvd.	Walnut Creek	CA	94595
Haight Ashbury Cooperative Nursery School	1180 Stanyan Street	San Francisco	CA	94117
Hansel and Gretel PPNS	124 Hemlock Ct	Hercules	CA	94547
Happy Time Cooperative Preschool	1091 Bello St.	Pismo Beach	CA	93449
Hastings Ranch Nursery School	3740 E Sierra Madre Blvd.	Pasadena	CA	91107
Healdsburg Community Nursery School	444 1st St.	Healdsburg	CA	95448
Heffalump Cooperative Nursery School	3990 Ventura Court	Palo Alto	CA	94306
Hilltop Nursery School	3625 Marathon St.	Los Angeles	CA	90026
Hilltop Preschool	9685 Warner Ave.	Fountain Valley	CA	92708
Hollister Presbyterian Cooperative Preschool	2066 San Benito St.	Hollister	CA	95023
Honey Tree Pre-School Inc	1 West Avenida de los Arboles	Thousand Oaks	CA	91360

LIST OF CALIFORNIA CHILDCARE COOPERATIVES, *continued*

COOPERATIVE NAME	ADDRESS	CITY	STATE	ZIP CODE
Inland Preschool	940 2nd St.	Calimesa	CA	92320
Irvine Community Nursery School	14341 Yale Ave.	Irvine	CA	92604-1901
Jack and Jill Cooperative Play School	1122 Franklin Road	Yuba City	CA	95991
James Marshall Parent Nursery School	919 Westacre Road	West Sacramento	CA	95691
John Knox Co-op Preschool	7421 Amarillo Road	Dublin	CA	94568
Kiddie Kampus Cooperative Play School	1711 2nd St.	Alameda	CA	94501
Kids Co-op	23800 Summit Road	San Francisco	CA	94110
Kids on Campus	500 El Camino Real	Santa Clara	CA	95053
King City Co-op Pre School	508 North Second St.	King City	CA	93930
La Playa Cooperative Nursery School	5041 Rhoda Way	Culver City	CA	90230
La Verne Parent Participation Preschool	909 Juanita Ave.	La Verne	CA	91750-0925
Lafayette Nursery School	979 First St.	Lafayette	CA	94549
Lagoon Playgroup	5119 Colorado St.	Long Beach	CA	90814
Laguna Parent Participation Preschool	23561 Alicia Parkway	Mission Viejo	CA	92691
Lake Arrowhead Cooperative Nursery School	351 CA-173	Lake Arrowhead	CA	92352
Laurel Hill Cooperative Nursery School	401 Euclid Ave.	San Francisco	CA	94118
Laurelwood Cooperative Preschool	955 Teal Drive	Santa Clara	CA	95051
Lil Cottonwood Preschool	12341 Montecito Road	Los Alamitos	CA	90720
Linda Beach Preschool	400 Highland Ave.	Piedmont	CA	94611
Linden Community Preschool	19147 E. Hwy 26	Linden	CA	95236
Little Hands: A Parent-Child Center	1300 5th Avenue	Belmont	CA	94002
Little Methodist Preschool	9849 Fair Oaks Blvd.	Fair Oaks	CA	95628
Little Village Nursery School	11827 W. Pico Blvd.	Los Angeles	CA	90064
Livermore Playschool	5261 East Ave.	Livermore	CA	94550
Loomis Community Nursery School	6414 Brace Road	Loomis	CA	95650
Los Angeles Family School	2646 Griffith Park Blvd.	Los Angeles	CA	90039
Los Feliz Cooperative Nursery School	3401 Riverside Drive	Los Angeles	CA	90039
Los Gatos Nursery School	15 Lyndon Ave.	Los Gatos	CA	95030
Los Gatos-Saratoga Observation Nursery School	4 Solano St.	Los Gatos	CA	95033
Lou Grant Parent Child Workshop	5400 6th St.	Carpinteria	CA	93013
Magic Years Cooperative Nursery	6303 Reseda Blvd.	Tarzana	CA	91335
Manhattan Beach Nursery School	1520 Nelson Ave.	Manhattan Beach	CA	90266
Mariposa Cooperative Preschool	3415 Woodlands Drive	Mariposa	CA	95338-1631
Menlo Atherton Cooperative Nursery School	802 Middle Ave.	Menlo Park	CA	94026
Mill Valley Nursery School	51 Shell Blvd.	Mill Valley	CA	94941
Millbrae Nursery School	86 Center St.	Millbrae	CA	94030
Milpitas Parents Preschool	355 Dixon Road	Milpitas	CA	95035
Miraloma Cooperative Nursery SchoolMisson	443 Foerster St.	San Francisco	CA	94127

LIST OF CALIFORNIA CHILDCARE COOPERATIVES, *continued*

COOPERATIVE NAME	ADDRESS	CITY	STATE	ZIP CODE
Modesto Parent Participation Preschool	1341 College Ave.	Modesto	CA	95350
Montclair Community Play Center	5815 Thornhill Drive	Oakland	CA	94611
Morgan Hill Parent Child Nursery School	16870 Murphy Ave.	Morgan Hill	CA	95037
Mountain View Parent Nursery School	1535 Oak Ave.	Los Altos	CA	94024
Mulberry School	220 Belgatos Road	Los Gatos	CA	95032
Multi-Cultural Child Development Center	1650 W Third St.	Santa Rosa	CA	95401
My Own School	501A Gold Strike Road	San Andreas	CA	95249-0723
Napa Valley Nursery School	641 Randolph St.	Napa	CA	94558
Neighborhood Nursery School	2700 Tesla Ave.	Los Angeles	CA	90039
New Horizons Nursery School	405 E Jack London Blvd.	Livermore	CA	94551
Noe Valley Nursery School	5210 Diamon Heights Blvd.	San Francisco	CA	94131
Novato Parents Nursery School	1473 South Novato Blvd.	Novato	CA	94947
Nurtury Preschool	14401 Dickens St.	Sherman Oaks	CA	91423
Oak Park Preschool	3500 2nd Ave.	Sacramento	CA	95817-2805
Oakland Progressive Daycare/ Beatie Street Preschool	733 Beatie St.	Oakland	CA	94606
Oaks Parent Child Workshop	605 West Junipero St.	Santa Barbara	CA	93105
Oneonta Cooperative Nursery School	1515 Garfield Ave.	South Pasadena	CA	91030
Open Gate Nursery School	2124 Brewster Ave.	Redwood City	CA	94062
Our Children's Place	3715 Pacific Ave.	Burbank	CA	91505
Pacifica Co-op Nursery School, Inc	548 Carmel Ave.	Pacifica	CA	94044-2461
Palo Alto Friends Nursery School	957 Colorado Ave.	Palo Alto	CA	94303
Palos Verdes Hill Nursery School	#6 Lariat Lane	Rolling Hills Estates	CA	90274
Paper Mill Creek Children's Center	503 B Street	Pt. Reyes Station	CA	94956
Parents' Nursery School Co-op	2328 Louis Road	Palo Alto	CA	94303
Paso Robles Cooperative Preschool	533 15th Street	Paso Robles	CA	93446
Patterson Co-op Pre-School	610 N Hartley	Patterson	CA	95363
Pepper Preschool	627 F Street	Petaluma	CA	94952
Petaluma Parent Nursery School	PO Box 894	Petaluma	CA	94953
Peter Pan Co-op Nursery School	4618 Allendale Ave.	Oakland	CA	94619
Pied Piper Preschool	2263 Whyte Park Avenue	Walnut Creek	CA	94595
Piedmont Cooperative Play School	401 Hampton Road	Piedmont	CA	94611
Pixie Play School	1797 Ayers Road	Concord	CA	94521
Playmates Cooperative Nusery School	344 East Morten	San Francisco	CA	94116
Pleasant Valley Preschool	440 Skyway Drive	Camarillo	CA	93010
Portola Preschool	386 2nd Aven.	Portola	CA	96122-1091
Portuguese Bend Nursery School	PO Box 231	Palos Verdes	CA	90274
Presbyterian Preschool	1550 Pacific Ave.	Santa Rosa	CA	95404-3508

LIST OF CALIFORNIA CHILDCARE COOPERATIVES, *continued*

COOPERATIVE NAME	ADDRESS	CITY	STATE	ZIP CODE
Preschool Learning for Avalon Youth (P.L.A.Y)	4 Birdpark Road	Avalon	CA	90704
Puddle Jumpers Workshop	2700 Booksin Ave.	San Francisco	CA	94110
Rainbow Day Care Center	901 P St #155B	Sacramento	CA	95814
Rancho Cooperative Nursery School	2551 Motor Ave.	Los Angeles	CA	90064
Ready, Set, Grow	33122 Grape St.	Wildomar	CA	95295
Ready, Set, Grow! Preschool	39475 Whitewood Road	Murrieta	CA	92563
Red Bluff Cooperative Nursery School	6450 20th St.	Red Bluff	CA	96080-8627
Redbud Montessori	27082 Patwin Road	Davis	CA	95616
Redwood Parents Nursery School	3997 Jefferson Ave.	Redwood City	CA	94062
Resurrection Lutheran Co-Op Pre-School	7557 Amador Valley Blvd.	Dublin	CA	94568-2421
Rocky Mountain Participation Nursery School	2475 15th Street	San Francisco	CA	94114
Rose Scharlin Nursery School	2414 Lakeview Ave.	Los Angeles	CA	90039
Roseville Community Preschool	50 Corporation Yard Road	Roseville	CA	95678
Roseville Parent Education Preschool	3645 Old Auburn Road	Roseville	CA	95661
Rustic Canyon Cooperative Nursery School	601 Latimer Road	Santa Monica	CA	90402
San Anselmo Cooperative Nursery School	24 Myrtle Lane	San Anslemo	CA	94960
San Geronimo Valley Family Preschool	6350 Sir Francis Drake Blvd.	San Geronimo	CA	94963
San Jose Parents Participation Nursery School	2180 Radio Ave	San Jose	CA	95125
San Marcos Parent Child Workshop	400 Puente Drive, Suite A	Santa Barbara	CA	93110
San Mateo Parents' Nursery School	1732 Monte Diablo Ave	San Mateo	CA	94401
San Pedro Cooperative Nursery School	1435 W 7th Street	San Pedro	CA	90732
Sand Tots PPNS	P.O. Box 1599	Redondo Beach	CA	90278-0599
Sandy Hill Nursery School	1036 Solana Drive	Solana Beach	CA	92075
Santa Barbara Charter School	6100 Stow Canyon Rd.	Goleta	CA	93117
Santa Clara Parents Nursery School	471 Monroe St.	Santa Clara	CA	95050
Saratoga Parent Participation Nursery School	20490 Williams Ave.	Saratoga	CA	95070
Seal Beach Play Group	151 Marina Drive	Seal Beach	CA	90740
Seaside Parent Participation Nursery School	4565 Sharynne Lane	Torrance	CA	90505
Sequoia Nursery School	2666 Mountain Blvd.	Oakland	CA	94611
Sequoia Parent Nursery School	1839 Arroyo Ave	San Carlos	CA	94070
Serra Parent Preschool	1005 Calle Puente	San Clemente	CA	92672
Sheffield Village Preschool	247 Marlow Drive	Oakland	CA	94605
Sherman Oaks Cooperative Nursery School	14265 W. Addison St.	Sherman Oaks	CA	91423
Shooting Star Preschool	7156 Regional St.	Dublin	CA	94568
Shoreline Acres	40 John St.	Tomales	CA	94971
Sierra Madre Community Nursery School	701 E Sierra Madre Blvd.	Sierra Madre	CA	91024
Silverspot Co-operative Nursery School	999 Brotherhood Way	Brisbane	CA	94005
Simcha Preschool	3055 Porter Gulch Road	Aptos	CA	95003

LIST OF CALIFORNIA CHILDCARE COOPERATIVES, *continued*

COOPERATIVE NAME	ADDRESS	CITY	STATE	ZIP CODE
Skytown Preschool	5714 Solano Drive	Richmond	CA	94805
Slippery Fish Co-op Preschool	12040 Union Ave.	San Francisco	CA	94132
Small Fry Nursery School	13878 Road 21 1/2	Madera	CA	93637
So Big Play Center Inc.	1201 W. 10th Street	Antioch	CA	94509
Soquel Nursery School	397 Old San Jose Rd.	Soquel	CA	95073
Southwest Community Nursery School	327 A street	Bakersfield	CA	93304
St Paul's Cooperative Nursery School	405 El Camino Real	Burlingame	CA	94010
St. Helena Cooperative Nursery School	1201 Niebaum Lane	Rutherford	CA	94573
St. Matthews Methodist Nursery School	15653 East Newton St.	Hacienda Heights	CA	91745
Starr King Parent Child Workshop	1525 Santa Barbara St.	Santa Barbara	CA	93101
Studio City Co-op Preschool	12621 Rye St.	Studio City	CA	91604
Summerville Parent Nursery School	20150 Tuolumne Rd N	Tuolumne	CA	95379
Sun'N Fun Creative Playgroup	343 12th street	Seal Beach	CA	90740
Sunnymont Nursery School	15040 Union Ave.	San Jose	CA	95124
Sunnymont Westside	4245 Lawton St	San Jose	CA	95124
Sunset Cooperative Nursery School	2131 Tustin Ave.	San Francisco	CA	94122
Sunshine Community Nursery School	5520 Gilgunn Way	Costa Mesa	CA	92627
Sutterville Preschool	1100 Lyons Avenue	Sacramento	CA	95822
Tahoe Parents Nursery School	11228 McCourtney Road	South Lake Tahoe	CA	96150
Tall Pines Nursery School	1401 Broadway	Grass Valley	CA	95949
TelHi Co-op	42690 Margarita Road	San Francisco	CA	94109
Temecula Play & Learn	19177 CA-120	Temecula	CA	92592
Tenaya Parent Preschool	3602 Eagle Rock Blvd.	Groveland	CA	95321
The Garden Nursery School	605 West Juniper St.	Los Angeles	CA	90065
The Oaks Parent Child Workshop	10 Irwin Way	Santa Barbara	CA	93105
The Orinda Preschool	1726 Pollasky Ave.	Orinda	CA	94563
The Treehouse Preschool	375 Palos Verdes Blvd.	Clovis	CA	93612
The Village Children's Center	1400 13th Ave.	Redondo Beach	CA	90277
Tiny Tot Time Preschool	415 Grant St.	Sacramento	CA	95822
Turlock Parent Participation Nursery School	225 W. Main St.	Turlock	CA	95382
Tustin Community Nursery School	13681 Newport Ave.	Tustin	CA	92780
Tustin Meadows Tiny Tots	229 Christian Valley Road	Tustin	CA	92780
Tutor Totter Preschool	56 Mohawk Ave.	Auburn	CA	95602
Twin Cities Community Preschool	444 Park Blvd.	Corte Madera	CA	94925
Ukiah Cooperative Nursery School	474 N. Parkview Drive	Ukiah	CA	95482
United Methodist Cooperative Nursery School	3233 South Sepulveda Blvd.	Burlingame	CA	94010
University Parents Nursery School	500 Amador St.	Los Angeles	CA	90034-4205
Vallejo Parent Nursery School	935 Camino Ramon	Vallejo	CA	94590

LIST OF CALIFORNIA CHILDCARE COOPERATIVES, *continued*

COOPERATIVE NAME	ADDRESS	CITY	STATE	ZIP CODE
Valley Parent Preschool	8619 Aviation Blvd 7300	Danville	CA	94526
Village Nursery School	700 West Manchester Ave.	Daly City	CA	94014
Watsonville Cooperative Nursery	220 Elm St.	Watsonville	CA	95076
Westchester Parent Nursery School	8619 Aviation Blvd.	Inglewood	CA	90301
Westminster Nursery School	13660 University Street	Westminster	CA	92683
Westside Parent Educaton Nursery School	1231 Bay St.	Santa Cruz	CA	95060
Winters Parent Nursery School	208 4th St.	Winters	CA	95694
Woodland Parent Nursery School	655 Fourth St.	Woodland	CA	95695
Woodside Parents Nursery School	3154 Woodside Road	Woodside	CA	94062

California Cooperatives:

Today's Landscape of Worker, Housing and Childcare Cooperatives

California Center for Cooperative Development | cccd.coop

{ Project Equity } | projectequity.org

Sustainable Economies Law Center | theselc.org

The James Irvine Foundation | irvine.org