



“UNLEASHING LOCAL CAPITAL” INITIATIVE

The Montana Cooperative Development Center (MCDC) is launching an “Unleashing Local Capital” initiative in 2018 in partnership with the Montana Governor’s Office for Economic Development and a number of state agencies and statewide associations. This initiative is focusing on very rural parts of Montana that struggle for investment capital and lack the capacity to compete successfully for large grants and venture capital. As envisioned, Rural Investment Cooperatives (RICs) will be formed at the local community level by members willing to invest in critical assets needed to launch qualified, pre-selected business start-ups.

While some RIC members may have cash available for their co-op stock purchases, others may prefer to redirect a small percentage of their retirement savings into these local projects. A feature of this initiative will be promoting use of self-directed individual retirement accounts (SD-IRAs) that are specifically designed and maintained by a Montana-based intermediary/custodian to accept tax-deferred rollovers from traditional IRAs and other eligible retirement products. Conversations are underway with large Montana credit unions to perform this service.

Money deposited into these SD-IRAs would be available to purchase one common “member” share in the local RIC and any number of preferred shares in the investment(s) identified as desirable by the membership as a whole. In this way, a larger pool of resources and participants may assist in rural business development through investment in real estate, equipment or other business assets that are key to community and economic revitalization. Although returns through cooperative stock would be modest – not exceeding the 6% threshold established by Montana law – the benefits to community well-being would far outweigh any monetary gain.

As envisioned, the new initiative will launch with a number of voluntary pilot projects that will vary in size and scope across the state. To date, prospective pilot projects include:

- Ronan Main Street building that would house co-op brewery
- Gardiner rental housing for tourism workers
- Roundup Central School Project
- Old Hospital in Malta
- Former Joplin School
- Chinook Bank Building
- Eureka Business Park
- Old Mills-Forestry Campus in Eureka
- Placer Hotel in Helena – Commercial space in the basement plus Floors 1 & 2
- Tiny house development on the Fort Belknap Reservation in Lodge Pole

What will be the purpose of Montana’s Rural Investment Cooperatives (RICs)?

Their purpose will be to leverage member-owners’ investments to purchase and rejuvenate poorly-utilized residential, commercial and industrial properties across rural Montana. This mission also may include investing in necessary equipment or new infrastructure as a means of business incubation. The RIC operations will be consistent with the principles and spirit of the cooperative movement, while making long-term, stabilizing, and transformative business investments for the mutual benefit of the member-owners and their rural communities.

What type of business will RICs be?

These investment cooperatives will be formally incorporated as for-profit cooperative associations under MCA Sections 35-15-101 et seq. They will operate in a manner that seeks a sufficient profit to pay modest dividends to their investors and/or to build capital for another development.

How will they be governed?

Like all cooperatives, the RICs will be governed by a volunteer board of directors that will perform governance functions and provide financial oversight. The board will likely research the investment opportunities before presenting their recommendations for a full vote of the member-owners. The board also will have management responsibility for the purchased business equipment and/or real estate.

Who will be able to become a member-owner?

Montana law allows any “person” to become a member of a cooperative association, and it defines person as inclusive of a corporation or other entity as well as a natural person. That means that any business or organization incorporated under Montana’s corporate statutes can join a cooperative as a member-owner. Advertising of co-op investments must be restricted to inside Montana, according to state code, although shareholders may have out-of-state addresses.

How much will it cost to join?

Typically investment co-ops offer a common share of stock for about \$1,000. This entitles all member-owners to have one vote in any decision subject to direct member control and makes them eligible to run for a seat on the board of directors. In Canada, an individual is limited to a maximum \$10,000 investment in any one cooperative.

Could a person invest more than the minimum required for membership?

Member-owners will have an opportunity to invest additional funds by purchasing preferred stock to support the RIC’s property/equipment purchases. The board of directors may issue different share classes of non-voting preferred stock if they choose to support more than one project at a time. No matter how much any member-owner has invested, he or she will only be entitled to one vote based on the original purchase of common stock. As with any investment in a security, an RIC will not guarantee a specific rate of return on its members’ investments, and it cannot exceed 6% under Montana law. Each year the board of directors will evaluate the net income for the year and the ability for the RIC to issue dividends and/or capital credit account allocations.

Could a person individually sell their cooperative stock?

No. Only the board of directors will be able to redeem cooperative stock and legally it cannot be traded. All member-owners should understand that they will be making a long-term, “patient” investment by joining the cooperative. However, RIC bylaws could provide a method by which member-owners under financial or personal distress could request that the RIC buy out their shares in advance of a formal call for redemption by the board of directors. Age limits for stockholders also may be set in the bylaws. The RIC board will retain their right to decline any requests for stock redemption if this action would compromise the financial stability of the RIC.