

Agricultural Outlook forum 1999

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## VALUE ADDED: COOPERATIVES AND COMMUNITIES WORKING TOGETHER

Francis L. Buschette  
Chairman, Co-op County Farmers Elevator

Good afternoon! I am pleased to be here today to share some thoughts and personal experiences of value added agriculture in Renville, Minnesota.

Let me begin by telling you about my farming operation and my philosophy about value added cooperatives. Growing up, I saw my parents add value to their crops raised on their 160-acre farm by using most of their crop production as feed for 12 dairy cows, 10 sows and 200 laying hens. They would sell the produce and meat from this, as their value added income. As farming changed and I started farming in 1960, our farm grew and today we farm 1,300 acres. We raise corn, soybeans, sugar beets and wheat. This doesn't allow the time and resources required to take care of livestock in addition to the marketing, production, repairs, planning, and the new technology of Global Positioning Systems in crop production.

Renville has the unique title of *The Cooperative Capital of the United States*. We are a community of 1,300 people and have nine cooperatives. These cooperatives are both traditional and New Generation Cooperatives. I will explain the difference later.

Presently our family is involved in the Southern Minnesota Sugar Beet Cooperative that produces sugar; Minnesota Corn Processes that produces ethanol and corn sweeteners, Golden Oval, producing liquid eggs, ValAdCo that produces pork, MinAqua Fisheries, producing a fish called Tilapia. These cooperatives are not the traditional cooperatives to which one could belong by buying a product or selling a commodity. These cooperatives are known by a variety of titles including New Generation cooperatives, New Wave Cooperatives and Value Added Cooperatives.

I believe that these cooperatives make our farm operation not unlike what I grew up with as a child by adding value to the different crops that we produce today. We have done this through the purchase of shares and the right and obligation to deliver a crop to the cooperative.

Midwest Investors, Inc. started as a new laying hen operation in 1994. First, the City of Renville annexed 320 acres into the city limits of which Midwest Investors owned 80 acres. This allowed the city to provide Tax Increment Financing and a low interest bond to the cooperative. This was a big boost when the new cooperative moved forward to get a loan from the St. Paul Bank for Cooperatives.

Today, Golden Oval Eggs, a subsidiary of Midwest Investors has two million laying hens and an egg breaking plant. Golden Oval sales in 1998 were in excess of 22 million dollars. There are 80 employees working in the barns, the breaking plant, and the office. Many of these people live in the Renville area and make their purchases there as well. Most employees are younger and have children in local schools and attend community churches. The cost of the 16 laying barns and egg breaking plant was more than \$20 million, an investment that returns a substantial tax

benefit to the city.

As the egg laying cooperative was starting, ValAdCo was also growing and the need for a new efficient feed mill became apparent. Co-op Country Farmers Elevator, a supply and grain purchasing Cooperative, Golden Oval, and ValAdCo a 10,000 sow cooperative joint ventured in building a state of the art feed mill. Again, the City came to the assistance and provided TIF and a low interest bond. Today, this cooperative, known as United Mills employs 12 year round people. This mill now grinds more than 70,000 bushels of corn per month or 77 unit trains with 54 hopper cars each year. This corn earns an added value in cash which is spent locally.

### **How did value added cooperatives begin?**

In the early 1970s, Crystal Sugar, a privately owned sugar company closed its processing plants in Chaska, Minnesota and Mason City, Iowa because of environmental issues and obsolete facilities. Former Crystal producers in Renville County worked together to form the first cooperatively owned sugar processing plant in the United States. After much difficulty in obtaining financing for a loan to build the plant, the operation began in 1975. This was the first New Generation cooperative in our area, and we didn't realize this until several years later. Growers had to purchase shares of stock which gave them the right and obligation to produce one acre of sugar beets for each share purchased, and deliver that product to the processing plant.

### **Risks involved in starting a Value Added Project**

Organizers must be certain that there is a market for the product to be produced as well as a profit in doing so.

It is important to establish a solid foundation with a solid equity. We have come to believe that the equity required to start a new cooperative should be no less than 50%. This serves to protect for unknowns that always seem to come along. For example, if a family should decide to remodel their home and the estimated cost is \$50,000, the final cost is frequently \$65,000 - \$70,000. Been there, done that! Bankers frown when new cooperatives fall below 30% to 35% equity.

Finding a top notch manager or CEO is the most important decision a board will make and such a manager or CEO will be expensive. It isn't easy for a group of crop producers to pay someone a salary which is much larger than they earn on their own farms! Don't be afraid of paying a good salary for an effective CEO. This may be the best investment a cooperative makes.

There are a number of positions of responsibility in operating a value added operation. Care must be taken by the board to make certain that decisions are made by people who have the expertise to do their job well. When shares were being offered in our community, one nay-sayer suggested that nobody locally was smart enough to manage a laying hen operation. Golden Oval hired the former owner of a laying hen operation in Iowa as production manager who does an outstanding job. Some times employees come from out of the area, and at times key employees are local people who have proven themselves.

### **Risks in not being involved in a value added cooperative**

A great risk is to lose the profit that could be made by working together and moving “up the food chain.” In Renville, located two hours west of the twin cities, the basis on corn is 45 cents under CBOT.

The value of shares is connected to success of the cooperative. If a cooperative is doing well, share value increases, and if doing poorly, the shares decrease in value similar to investments in the stock market.

Local communities either ignored or opposed early value added cooperatives. They did not understand and appreciate the role of value added cooperatives in economic development. That has changed considerably and nonfarm business enterprises understand the value of cooperation in the farming community and include these members in community development discussions. There is a new viewpoint in the community, as some new employees are from different areas of Minnesota and the United States, and bring in new perspectives. Renville is no longer a closed community.

In the case of Renville, a community of approximately 1300 people, since 1992, approximately 170 direct jobs within the new cooperatives have been created. These numbers do not include supporting jobs that are not easily identifiable, such as labor for additional fuel delivery, repairs, and electricians, etc. Statistical reports tell us that for every ten new job positions one new supporting job is created. Renville is one of the few area communities in which every building located on Main Street is occupied. Local comments are that new employees buy cars and purchase groceries and supplies from the local stores.

With larger farms and a decreased population, there is a potential of the loss of community organizations. There has been a decrease in the membership of Renville County churches due to decreases in the general population. However, in the Renville area, many churches are experiencing growth due to the employees hired by value added cooperatives. In the past, nearly all of the young people completed their high school education and then left the area. Today, the New Generation Cooperatives offer opportunities for employment in a wide range of jobs, including managerial positions. One of the biggest concerns in our community is the shortage of a labor force. There is employment available for anyone who is willing to work.

**There is risk in doing nothing.** A young farmer from North Dakota said he is shifting investment from land and machinery to investments in New Generation cooperatives. He said if the venture fails, you lose the cash, but a bigger gamble is staying with the status quo. He ends his talk by saying doing nothing has always been a sure way to go broke. That goes for communities as well.

In summary, I would like to leave a message with you. There is a crisis in farm country. There will be several farmers that will not qualify for operating loans this year. This is not because of poor management, but because we have encountered the lowest prices farmers have been paid in decades. We do need to add value to the commodities we produce and bring them up the food chain to the consumers. We can and will produce the quality and quantity of products the consumer demands. Because of the farm crisis, new ventures will need considerable help. I believe a major help would be through low interest loans. When new projects get their necessary

loans in place, they usually have a very high rate of interest. This causes the new venture to begin with a huge debt before any products are marketed. When rural electric came to the country, cooperatives received loans at a discounted rate, and this helped jump-start these cooperatives. If New Generation Cooperatives could start at 2% or 3% interest rather than 9% or 10%, this would certainly help. The loans could even have a sunset after five or seven years.

I believe that value is added to both the cooperative member and to the local community when they work together.