Setting Membership Fees for a Worker Co-op

When a member pays their membership fee they purchase a share from a worker co-op (or "interest" in an LLC). This entitles them to a vote / decision-making power in the co-op. Each member has only one share and voting happens on a one share one vote basis. Membership fees are usually set by the board of directors and can be increased to match inflation, but should not be increased arbitrarily or discriminatorily. Maintaining the initial share value ensures that new members can buy into successful co-ops. Membership fees are sometimes considered an investment and must abide by securities laws in your state, so be sure to consult an attorney. Much of the content here is based on ICA Group's Guide [Setting a Membership Share Price]

Choosing the Amount

Fees can vary greatly in cooperatives, from very little to tens of thousands of dollars. Here are some considerations for finding the right fee amount for your cooperative:

1. **Show commitment:** Many co-ops set the membership fee at a level that is significant for their workers, an amount that shows commitment from the onboarding member. South Mountain Company Co-op, for example, sets it at the level equivalent to good used vehicle in their area.

2. **Fees can supply capital** to meet the needs of a co-op. If your capitalization plan includes membership fees as a significant source, the membership fee should be related to the capital needs of the co-op.

3. **Make sure it is not prohibitive** to your workers or the kinds of members you want to attract. The fee amount can be paid over time (often during the membership trial period) in monthly installments, payroll deductions, etc. (see below) but should not be higher than what your members can afford.

4. **Higher membership fees look better to lenders** and investors. Significant fees show member buy in, improve your financial standing - look good on your balance sheet - and are good for loan applications, investor appeals or selling owners in the case of a business converting to a cooperative.

Online Tool:

[Use this tool with your team to help establish membership fee amounts and payment schedules.]

How Membership Fees Are Paid

The primary **options** for how membership fees are paid are:

1. Lump sum (all at once).

2. Payment plans including payroll deductions or a specific loan for member contributions.

3. Minimum amount required as a lump sum and the rest with a payment plan.

These are some **considerations** for setting up how membership fees are paid in your cooperative:

1. Feasibility for members: Again, make sure your fee schedule is not prohibitive for low resource community members.

2. Feasible for co-op: Make sure your system is not overly complicated to track relative to the amount.

3. If you collect fees on a payment plan via payroll deductions, make sure you're not violating minimum wage laws.

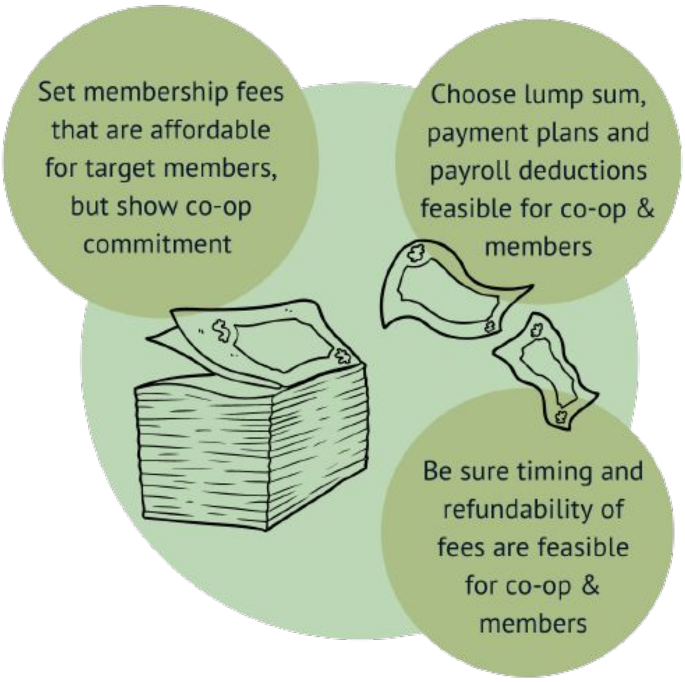
When Membership Fees Are Paid

Typically membership fees are paid during a probationary period or at the time of becoming a member, but the following considerations can help you figure out when is best for your co-op:

1. **When the co-op needs the capital:** Is the co-op likely to need the capital up front, or can it be patient in accepting longer payment periods?

2. **Tax or legal considerations:** does your co-op require no probationary period for members? If so, membership fees might need to be due in full at time of hiring or begin a payment plan once already a full member. This is common in LLC co-ops taxed as partnerships, for example.

3. **Matching timing of benefits with contributions:** Make sure the benefits (monetary and otherwise) your co-op is offering is worth it to prospective members to complete membership track.



Will Membership Fee Be Refundable?

It is standard for a worker co-op membership fee to be refundable upon a member's departure from the co-op. To avoid too much financial strain from members leaving, a co-op can specify a period of time the co-op has to return the fee once the member leaves. This should be defined in the bylaws and include whether or not interest will be paid. In some cases, though, co-ops choose to make the membership fee non-refundable (if legal to do so, again consult an attorney), often based on the following considerations:

1. Is amount significant enough to be more prohibitive or extractive if non-refundable? Is the fee so high that it would exclude potential members or not be worth the worker's investment for the expected financial return?

2. Is the co-op ready to track member capital accounts from the beginning? Make sure systems are set up if fee is refundable.

3. Is the co-op worried about the impact that members leaving will have on working capital? Even if the co-op has a year or two to pay back the fee, the co-op may be concerned with many members leaving at once.

4. Cultural considerations: will a membership investment be too close to something a culture would consider a loan and not be in line with cultural values against lending with interest.