

Category: Creative Financing

Project: Island Employee Cooperative

Project Location: 1 Burnt Cove Road, Stonington, ME

Status: Financing complete, business operating for 9 months, ongoing technical assistance

Cost: \$5,552,068

Description: After 43 years in business, the owners of Burnt Cove Market, V&S Variety, and The Galley, all based on Deer Isle, Maine, decided to sell their stores. When a viable buyer didn't materialize, the employees organized themselves into a worker cooperative, negotiated a purchase and sale agreement with the owners, and purchased the three stores. The Island Employee Cooperative (IEC) is now Maine's largest worker co-op and the second largest in New England. The IEC employs 60 island residents, 45 of whom are member/owners.

Burnt Cove Market and The Galley are grocery stores, one in Stonington and one in Deer Isle, the two towns on Deer Isle. V&S Variety offers a wide range of items from greeting cards, fabric, house wares, small appliances, clothes, and everyday hardware and tools, as well as housing a pharmacy. Burnt Cove Market also sells gas. In sum, these businesses provide a large majority of the products needed to survive on this isolated island community.

A team of financial institutions, service providers, and technical assistance providers (core TA at time of closing was over 2800 hours!) worked together to complete the conversion and purchase in 12 months, a short time given the complexity of the project. Cooperative development had to occur in tandem with financial and business planning. The seller was supportive provided the transaction happened quickly. The successful completion of the project maintained local ownership and 60 jobs, buffered the stores from off-island competition, and ensured vital economic activity would continue on-island.

Three items are particularly notable about this transaction: (1) creative financing; (2) the development of a succession planning model for independent grocers in rural communities; (3) and the concurrent development of a worker cooperative conversion model. The project demonstrates a powerful way to maintain community assets and empower local workers.

Community Needs Addressed: Stonington and Deer Isle together have 3,018 inhabitants. The median household income is 80% and 91% respectively of Maine's (\$46,033), which in turn is below the United States. Average age in Stonington is 50.1 and Deer Isle is 51.6. Unemployment is highly seasonal, but hovers around 10%. These aging coastal communities depend on lobster fishing, tourism, and the arts for their local economy. Population doubles in the summer, and local businesses must make enough money to survive year-round in approximately 4-5 months. The challenges these towns face are significant, and it can be difficult to ensure that basic needs are met.

Grocery stores provide an important service and community gathering space and offer steady, reliable employment. They are critical small town institutions, akin to the post office. The potential to lose jobs was high had an off-island buyer come forward; worse would have been the closure of these stores altogether. Other employment opportunities on the island are very limited. Additionally, Stonington and Deer Isle are dependent upon the businesses of the IEC; if the businesses were to

close, customers would be forced to travel at least 25 miles on backcountry roads to reach comparable stores. It was imperative to keep these stores open and robust to maintain quality of life and vitality in the community by providing access to affordable food as well as many other ancillary needs such as gasoline.

Outreach efforts were limited during the ownership transition given the many competing demands on time. However, the IEC is now surveying the community to determine how to adjust product mix, deepening relationships with local food producers, building a community wellness campaign, and developing a local resident benefit card that could pay back during the hard winter months when budgets are stretched due to seasonal employment and heating costs.

Benefits and Outcome: The purchase of these businesses by the IEC provided a “win-win-win.” The sellers gained a succession plan that will allow them a comfortable retirement; the employees have the opportunity to build wealth through ownership; and ownership stayed local, keeping operations and profits on the island.

- Transfer of ownership to 45 former employees and the creation of a democratic ownership structure: These individuals live and work on-island, which will keep money revolving locally as well as deepen the ties and capacity of the IEC to serve both residents and summer visitors. The new owners participate in running the business and get an equitable share of the proceeds.
- Ongoing technical assistance: Current TA providers are under contract to the IEC for 5 years to ensure the strength of the governance and business capacity of the coop. An advisory body has been formed. In addition, following an assessment process, workforce development trainings are planned in conjunction with regional partners. These training opportunities provide professional development for the employees and will build real, transferable skills.
- Food access, a priority of CEI's, has been maintained on the island. In addition, the IEC is working with local producers, both farmers and value-add, to provide market outlets and highlight their products.
- Owners will build equity through purchase of Class A (voting) and Class B shares. In time, the coop may decide to sell additional Class B shares to the community, further deepening ties.
- Models of succession planning for independent grocers and worker cooperative conversion.
- While there is no initial environmental impact, the IEC is currently developing a plan to switch out old equipment for new energy efficient units (i.e. refrigerated cases) and developing plans to capture sales leakage off-island which would reduce vehicle miles traveled, among other strategies.

Project Collaborators: In addition to the IEC itself, core partners include:

- CEI: CEI organized a financing consortium to support the transaction and contributed \$1 million to the capital stack. CEI also provided hundreds of hours of technical assistance through its sustainable agriculture, business development services and workforce development programs. CEI made a predevelopment loan in the early stages of the financing process so that the IEC had liquidity to do necessary work leading up to closing.
- Cooperative Development Institute: A core technical assistance provider, CDI worked hard to develop the coop structure, build out governance documents and incorporate the coop, and is now under contract for 5 years for ongoing assistance.

- Independent Retailers Shared Services Cooperative and Specialized Accounting Services: Together, these groups brought grocery industry experience to develop business, marketing, and financial capacity. Also under contract for 5 years.
- Financiers: CEI contributed \$1 million to the capital stack. The Cooperative Fund of New England was an early partner, bringing expertise in coop financing to the group. Associated Grocers of New England provided an inventory loan. Vern Seile, the owner, held paper in order to complete the transaction, though his first position loan will shortly be taken out by the National Coop Bank.
- Vern and Sandra Seile: The sellers had a great deal to gain from the transaction, but without their support and encouragement it is unlikely the project would have succeeded. They worked closely to support their employees throughout the process, worked with TA providers to identify experienced employees for committees, and were a key component of the financing package.
- Eastern Maine Community College is now providing free training (thanks to grant funding from the Maine Quality Centers' incumbent training initiative) along two tracks: one focused on management and the other on business fundamentals.

What Makes Your Project Unique? :

1. Creative financing: This transaction was challenging due to timing (had to close prior to the busy summer months to build cash reserve to survive the winter), size at \$5.55 million, limited collateral, no equity, need for inventory financing, and the cooperative structure. CEI met with a dozen mission-based lenders and community banks before succeeding in organizing the consortium. Ultimately, the sellers provided a first position loan in addition to a subordinated loan to complete the transaction in a timely fashion and provide the necessary equity. (The National Cooperative Bank has committed to taking out the first position loan.) All three primary lenders are pari passu. AGNE, the grocery wholesaler, provided an inventory loan. Financiers lent against a real estate appraisal coupled to a going concern valuation. An assignment of shares was taken in the holding company rather than personal guaranties, and the TA contracts were viewed as credit enhancements.
2. Independent grocer succession model: In Maine, most rural independent grocers are nearing retirement age and buyers are few. As an incentive to sell to their employees, the technical assistance partners suggested the 1042 rollover, an underutilized tax structure which allows owners who sell their business to an ESOP or a worker-cooperative to avoid capital gains. CEI believes that this model is relevant on a national scale, and presented on it at the Rural Grocery Summit in June 2014.
3. Worker cooperative conversion model: This model offers high potential for community wealth building across many small business types. CDI used the IEC as a pilot to develop the process and parameters for additional projects. Research by the National Center for Employee Ownership suggests that employee owned firms see productivity improvements, higher wages, and longevity in a recession, making the cooperative a highly resilient business model for beleaguered communities.

Organization's Name: Coastal Enterprises, Inc. (CEI)

Website: <http://www.ceimaine.org>

Main Contact: Daniel Wallace

Email: dwallace@ceimaine.org

Phone Number: 207-535-2916

