Greenbelt Consumer Cooperative
Annual Meeting – November 7, 2020
Bylaws Change

PREFACE

The board and management are asking for your support in voting for a Bylaws change to help update and modernize our Co-op Bylaws.

What does the bylaw do?

It allows the board to allocate any potential patronage refunds into non-interest-bearing accounts called "Sustaining equity" (like most food co-ops do). This prevents the Co-op from having to pay interest to members on refunds, a financial burden on money that is technically intended as owner equity to help capitalize the Co-op.

A YES vote does not change any current accounts, it just allows the board more flexibility in the future to properly allocate net savings and patronage refunds that best benefit the whole Co-op.

Please read on for a more detailed introduction of the proposed bylaw change.

INTRODUCTION:

Surplus Income (a.k.a. "profit") is revenues minus expenses. Expenses include any year-end bonuses paid to staff, and revenues include any donations members make to the Co-op.

The Board has in the past specified some percentage of Surplus Income as retained earnings, which is subject to state and federal income taxes. The rest of Surplus Income (if any) was designated patronage refunds, which the Board allocated to members in proportion to their patronage. The Board has decided each year what portion of patronage refunds is paid to members by check and what portion is added to member capital accounts.

New Approach: Designate all Surplus Income that the IRS does not require the Cooperative to pay taxes on as patronage refund. Some of that is to be non-interest-bearing and is retained indefinitely in the member's name instead of being retained earnings. The non-interest-bearing part of patronage refunds is termed Sustaining Equity. That means that the Cooperative does not pay income tax on that part of its surplus income. However, the result for members is the same. The Cooperative pays interest as usual only on the normal member capital over $200.00, including the part covered by written contracts, not the Sustaining Equity.

Example: Currently the Cooperative might divide surplus income of $100,000 as $80,000 retained earnings and $20,000 patronage refund paid in a check. Instead, the Cooperative could have $30,000 in retained earnings (required by the IRS), $20,000 paid by check, and $50,000 Sustaining Equity. That would cut the Cooperative's tax bill down from $16,000 to $6,000 but not affect what members receive. Note: Assumes taxes are around 20% of retained earnings.

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Also: Some members have said that they want to forego their interest. The Cooperative can accommodate these members by letting them designate some or all their member capital as Sustaining Equity. Those members can also choose each year whether to donate their interest, which would become taxable to the Cooperative (though the Sustaining Equity is retained untaxed).

IMPLEMENTATION:

==>Amend the GCC Bylaws by inserting the following after the first paragraph of Section 2.01:

Each year the Board of Directors shall divide each member's patronage refund into three parts: (1) Paid to the member in cash or the equivalent, (2) Member Capital, which is added to the member's account and retained until after the member withdraws from the Cooperative, and (3) Sustaining Equity, which does not earn interest and is retained in the member's account *as long as the law allows*. Any member may choose to designate some of their member capital as Sustaining Equity.

==>Also, in Section 2.03: Withdrawal of Membership, replace "Membership capital (including accrued patronage refunds) shall be refundable by the Cooperative" by "*Member capital shall be refundable* by the Cooperative".