



## **WHY YOUR STATE SHOULD ADOPT THE UNIFORM LIMITED COOPERATIVE ASSOCIATION ACT (ULCAA) (2006) (LAST AMENDED 2013)**

The "cooperative" as a business entity is an important tool for economic development and business transactions in both rural and urban settings. The industry encompasses many different forms of cooperatives organized by individuals or businesses uniting to meet their members' mutual interests by creating and using a jointly owned enterprise. In recent years, the federal government's interest in cooperatives has increased due to changes in farm subsidy programs, globalization pressures for larger and more flexible entities, and the utility and benefits of cooperatives as a business structure. Many states have considered revising their laws governing cooperatives, and several have enacted legislation to consolidate their special purpose cooperative statutes into a coherent, centralized statutory structure. However the law governing cooperatives in the states is in flux, and despite a growing and substantive trend toward broader, comprehensive, and more flexible governing statutes for cooperatives, there is a marked lack of uniformity in the structure and development of these statutes.

The Uniform Limited Cooperative Association Act (ULCAA), drafted and approved by the Uniform Law Commission in 2007 and amended in 2011 and 2013, addresses the need among the states for a centralized statutory scheme to govern cooperatives. The act is designed to promote both rural and urban development by creating the option of a statutorily-defined entity that combines traditional cooperative values with modern financing mechanisms and techniques. ULCAA recognizes a growing trend toward the "New Generation Cooperative" (NGC), which can include features not readily available under traditional law, such as legally binding delivery contracts and the opportunity for outside equity investment.

ULCAA creates an alternative business entity that is more flexible than most current cooperative laws allow, and provides a default template that encourages the use of tested cooperative principles for a broad range of entities and purposes. The act contemplates the formation of various types of limited cooperative associations, including marketing, advertising, bargaining, processing, purchasing, real estate, and worker owned cooperatives; and a limited cooperative association under the act can be organized to pursue any lawful purpose.

It was amended in 2011 and 2013 to harmonize, to the extent possible, the language in its provisions that are the same as similar provisions in the other uniform unincorporated entity acts.

The act contains the basic organizational and operational features of a limited cooperative association. Additional key highlights of ULCAA include:

- Authorizes both patron and investor members of the limited cooperative association.
- Establishes the nature of member rights as personal property interests. These rights include governance rights, financial rights, and the possible right or obligation to do business with the association.

- Authorizes marketing contracts between the limited cooperative association and third parties, which do not necessarily need to be patron members. The act addresses contract duration, title transfer issues within those contracts, and allows for enforceable security interests in the products, commodities, or goods delivered.
- States that member contributions may consist of tangible or intangible personal property, or any other benefit to the association (such as money, labor, services, promissory notes, agreements to contribute, and contracts to be performed) unless the organic rules provide otherwise.
- Allows the cooperative's board to determine the "value" of member contributions, in order to determine whether a member has met its obligation.
- Addresses the allocation of profits and losses between patron members, distribution methods, and allows for the creation or accumulation of capital reserves, reasonable reserves for specific purposes, including providing education and training, and information rights.
- Establishes an identical exemption from state securities laws for patron member that they would enjoy in similar cooperative associations under existing law.
- Addresses member dissociation and dissolution of the cooperative association, and mergers, interest exchange, conversion and domestication transactions.
- Confirms the right of a member to maintain a direct action to enforce the rights of that member and to maintain a derivative action to enforce an association's right where the association fails to or will not enforce that right.

ULCAA offers cooperatives and their members a statutory mechanism that embodies the traditional elements of cooperative associations, and recognizes the changing needs and trends that cooperatives face. It recognizes the varied purposes a cooperative can and should be used for, and provides flexibility in their organization and development. The act provides an effective vehicle for cooperatives to organize, develop, and thrive.

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